

Auditor General's Triennial Report

2021-2023

Foreign Funded Projects

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Executive Summary

1. Sri Lanka has no robust export revenue. Due to non-availability of required mineral resources and quality productions for the goods manufactured in the local industries and in the local market, there is no inflexible demand for the exports of Sri Lanka in the world market. Furthermore, Sri Lanka had accustomed to a luxurious lifestyle. Therefore, a large number of goods and services had to be imported for the fulfillment of daily requirements within the country.
2. Tea garments, products like spices and supply of various services are main export revenues in Sri Lanka. However, this revenue is not sufficient to import consumable goods and services to Sri Lanka since many years. Therefore, there had been a deficit in the trade accounts since long-time. As a result of that, the revenue in the country is not adequate to import even consumable goods and services.
3. However, since the capital expenditure is an essential part for the development of infrastructure facilities of a country, the development of the sectors such as electricity, water, highways, health and education which are the infrastructure facilities of the country is important for the enhancement of the living conditions of the people. Similarly, the infrastructure facilities required for the products of the investors should be developed in the country and their contribution should be obtained for the gross domestic production of the country by providing the other facilities for that. Therefore, the capital required for the government should be obtained as foreign debts and grants to the development of the infrastructure facilities of the country. These foreign funded projects are implemented in the name of relevant ministry and implementing institute which is very close to that. The foreign debts and grants obtained for capital expenditure in the country by these projects should be properly planned and implemented for obtaining the expected outcome through the relevant projects.
4. But it is frequently discussed that the foreign debt in the country rapidly goes up without fulfillment of the expected objectives through these projects and the reason for this is the weakness of the relevant ministries and its implementing institutions as well as Project Monitoring Units established for the implementation of these projects.
5. The under-mentioned reasons occurred in the implementation of the relevant projects by the aforesaid institutions had mainly affected for this matter.
 - i. Non-availability of proper plans for the project
 - ii. Not taking action to fulfill the basic activities for implementation the project prior to obtain loans or grants
 - iii. No co-ordination among the public institutions in relation to the project activities or establishments of the projects
 - iv. Delay of providing the constructions to the contractors due to delay of land acquisitions

- v. Non-appointment of qualified officers for the projects
 - vi. Difficulty to carry out the project activities owing to the climate and wrong forecasts on the climatic situations
6. As a result of above reasons, it is unable to complete the foreign funded projects within the expected period of time and it useless of utilizing the funds in the foreign funded projects due to that reason. Accordingly,
- i. It had to pay additional interest and expenses due to not providing foreign funds as expectedly.
 - ii. Increase of the project cost due to increase of the cost of the inputs utilized for the completion of the construction owing to inability to complete on expected dates
 - iii. Inability of achievement of the intended objectives of the project on due time and non-fulfillment of the requirements of the people who expect the benefits through projects
 - iv. Inability to fulfill the goals expected by government through relevant projects
 - v. Collapse of production or supplies or services due to non-completion the relevant projects on due dates
 - vi. Higher impact occurred to the environment due to delay of project
 - vii. Payment of additional amount for maintenance of Project Monitoring Unit due to project delay
 - viii. Payment of additional money to the contractors
 - ix. Huge increase of the project cost due to alteration of the foreign exchange rates
 - x. Removal from the investments in the country by foreign financing institutes due to lack of the confidence about country
7. In accordance with the Annual Report of the Ministry of Finance, the foreign loans of Rs.351, 623 million, Rs.783, 326 million and Rs.831, 952 million had been granted by foreign financing institutions in 2021, 2022 and 2023 respectively.
8. The projects through these foreign aids are implemented under key 13 divisions in the island-wide and the basic information in relation to such projects, the financial performances on utilization of the fund in project for 2021, 2022 and 2023, audit observations made by Auditor General for those years, measures taken by such observed project and the current status of those projects are as follows.

Observations of Foreign Funded Projects

01. Agriculture and Plantation Division

1.1. Smallholder Tea and Rubber Revitalization Project

It had been agreed to grant a loan amount Rs.3,349 million under International Fund for Agriculture Development Loan agreement No. 2000001447 for Smallholder Tea and Rubber Revitalization Project commenced on 15 August 2016 and the contribution of Government of Sri Lanka is Rs.5, 153 million. The project had been extended at 02 occasions and it had been planned to be completed on 30 September 2023.

The important information on the financial status of the project in 2021, 2022 and 2023 is as follows and the Auditor General had given an unqualified opinion for the financial statements of the project in 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure of the year			
Government Fund	521.60	575.66	253.97
Foreign Fund	620.33	670.53	1,587.66
Total Assets	5,383	10,552	11,842
Total Liabilities	5,383	10,552	11,842
Total Fund			
Through foreign debts	816.66	943.27	1,617.33
Through local fund	807.82	969.50	594.19

In addition, several important audit observations arisen from the audit reports submitted for previous 03 years related to project are as follows.

Audit observation	Year of report	Auditor General's recommendation	Preventive measures taken by audit entity	Implementation status of recommendation at the date of report
<p>(a) The project had planned to rehabilitate the tea lands in extent of 5500 hectares in 06 selected districts from 2016 to September 2023 and replant those lands.</p> <p>However, since the operations of the project couldn't be commenced in 2016 as scheduled, the target of rehabilitation and replantation of tea lands had been revised up to 4,500 hectares.</p>	2023	As planned, the activities should be carried out.	<p>As at 31.12. 2023, the progress of tea replantation was 4,131 hectares out of overall target of 4,500 hectares. Accordingly, the remaining 369 hectares for tea replantation had not been completed yet. When the project is completed, the total progress of tea replantation had been recorded as 92 percent.</p>	<p>The replantation had been carried out only in 4131 hectares from the replantation target. On 30 September 2023, the project had been completed.</p>
<p>(b) 805 beneficiaries; who obtained permits to replant tea in a total area of 242 hectares in the six districts during the period of 2017 to 2023 under the subsidy schemes, had taken financial payment of Rs. 36 million and had not started any work on various reasons.</p>	2023	The funds should be used and the decided activities should be done with the supervision of the Project Management Unit.	<p>In order to settle the payment of this sum, the amount directed to the Mediation Board was Rs.10.02 million (USD 30,383) and the amount directed for legal actions was Rs.25.91 million (USD 78,501).</p>	<p>As per the approval granted by the International Fund for Agricultural Development (IFAD), a sum of USD 108,884; that is Rs. 35.93 million, has been deducted from the total amount justified in the third quarter of the year 2023 and the unsuitable expenditures had</p>

been removed from the IFAD reports.

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| <p>(c) The project has allocated Rs.45 million to create the capacity to supply 250,000 rubber plants per year from the nursery located at Padiyathalawa in Ampara District which belongs to the Rubber Development Department and to develop the infrastructure facilities of the project, and a sum of Rs.7 million had been spent for the development of nursery by the project in the year under review. However the project was able to obtain only 40,365 rubber plants from its nursery and the remaining quantity had been purchased from other nurseries and extra amount of Rs.22 million had been spend for transportation.</p> | <p>2021,
2022</p> | <p>All relevant activities should be done in due time to minimize the unnecessary expenditure.</p> | <p>The project had financed Rs.53.69 million for the development activities as at 31.05.2023. The total number of budded rubber plants supplied by the Padiyathalawa nursery in the year 2022 was 40,365. Out of the balance requirement of 325,039, only 312,417 plants were supplied by the other nurseries of the RDD. The transportation costs of Rs 22,097,293 had incurred within the year 2022 to deliver the procured budded rubber plants to the beneficiary lands in Ampara and Monaragala districts by the project.</p> | <p>The plant production of Padiyathalawa nursery in the year 2023 was 44,457 and 83,451 plants have approximately been produced by the end of the project.</p> |
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1.2. Agriculture Sector Modernization Project – Part 01

The International Development Association had agreed to provide a loan of Rs. 11,700.61 million under Loan Agreement No. 5873-LK for the Agriculture Sector Modernization Project – Part 01, which was initiated in 2016, and the Government of Sri Lanka's contribution was Rs. 8,451 million. The project was extended on 01 occasions and was planned to be completed on 31 December 2024.

Some important information about the financial status of the project for the years 2021, 2022 and 2023 is given below. A qualified opinion on the project's financial statements for the years 2021 and 2022 and an unqualified opinion for the year of 2023 had been given by the Auditor General.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure for the year	5,239	7,440	8,732
Government funds			
Foreign funds			
Total assets	23,115	31,594	40,727
Total liability	7,262	6,881	5,751
Total funds			
Through foreign loans	5,620	7,634	13,949
Through local funds	3,283	4,760	14,809

In addition to the factors that led to the submission of the qualified audit opinion, several important audit observations that arisen from the audit reports submitted for the last 3 years regarding the project were as follows.

Audit observations	Year	Auditor's recommendation	Preventive actions taken by the audited entity	Status of implementation of the recommendation as at the date of the report
(a) The targets which were set in the Project Appraisal Document issued by International Development Association related to project objectives were not able to be achieved. As at 30 April 2023, four objectives which had achieved less than 55 percentage were unable to achieve within project period of 5 years and it is uncertain to the audit whether those objectives would be able to achieve in next one and half year.	2021 2022 2023	The project should work towards achieving the desired objectives.	The progress of four PDOs mentioned has been determined based only on the number of completed sub-projects as at 30 April 2023. The number of completed sub-projects as at 30 April 2023 was 630. There are 758 remaining on-going sub projects to be reviewed 55 percent of the total number of sub-projects to count the above indicators (PDOs) for the completion of the set targets. Those 4 PDO indicators are lagging behind due to start-up delays and challenges associated with COVID -19 pandemic and recent economic crisis, but a gradual improvement has been noted from the 2 nd quarter 2023 onwards.	The expected target is 95.7 percent, but it was observed that the target achieved by the end of August 2024 was 76.8 percent , so the expected target may not be achieved by the end of the project period .

Accordingly, when 758 sub-projects are completed, the progress of achieving targets in another 20 months can possibly be reached the final targets of PDOs.

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| (b) | Due to the weakness of monitoring activities of the project, the second tranche of Rs.1,023 million which was to be given to 263 investors who were given the first tranche of the matching grant given by the project to the investors was delayed from the commence of the project to 31 December 2022. Furthermore, the payment of Rs.389 million to be paid as the third tranche to 249 investors who were given the first tranche and the second tranche was delayed from the commencement of the project to 31 December 2022. | 2021
2022 | The project should work to achieve the desired objectives within the relevant period. | This is mainly due to various problems faced by investors. Releasing of the 2 nd tranche will vary based on the work in progress in the 1 st tranche of the project and further releasing of funds will not happen until the matching percentages (grant and own contribution) are met. | The expected target is 95.7% , but as it was observed that the target achieved by the end of August 2024 was 76.8% , the expected target may not be achieved by the end of the project period . |
| (c) | A sum of Rs. 85.72 million of the matching grants had been released in year | 2021
2022 | Funds should be utilized efficiently. | Action has been taken to be recovered the balance amount of | The remaining amount to be collected had not been collected |

2017, 2018 and 2019 to some companies that were abandoned their project activities. Although those grants shall be refunded, only Rs. 49.48 million was refunded as at the end of the year under review. The balance amount of Rs. 36.25 million has to be recovered at the end of the year under review.

Rs.36.997 million until now. from 4 proponents.

- (d) The allocation 2021 The project 2022 The allocation Informing that the amounting to US\$ 7.12 million had been made to carry out activities under the component of Partial Credit Guarantee and it had not been utilized up to 31 December 2022. According to the explanations made by the Project, several awareness programs with the representatives of Licensed Commercial Banks had been held and the action had not been initiated by the respective Banks, due to problems faced in administrative arrangements.
- The project should work towards achieving the objectives.
- The allocation amounting to US\$ 7.12 million to carry out activities under the component of Partial Credit Guarantee of the Project is totally controlled and monitored by the Regional Development Department of the Central Bank of Sri Lanka. Commercial Banks are reluctant to utilize this scheme due to administrative issues. Hence, the amount allocated was revised and out of the total allocation, US\$6.12 million was transferred to Matching Grant Scheme leaving a
- US dollar 6.12 million out of that amount has been allocated for matching grants .

sum of US\$ 1.00
million.

- (e) The project commenced on 17 January 2017 and considering the progress of utilization of funds as at 31 December 2023, it was observed that the project utilized only USD 43.32 million funds out of allocation of USD 61.05 million by the International Development Association Loan. As a percentage, it was 70 percent. Therefore, it was observed that the utilization of funds is ineffective when considering the rest of one year time period with balance funds.
- 2021 The identified Project was The utilization of
2022 target of the restructured in July funds as at the end
2023 project should be 2023 and total of August 2024 is
completed within project value was US\$ 46.9 million .
a specific time reduced to USD It was observed
frame. 48.620 million. that the project
According to the could not be
new project value completed by
almost achieved 80 utilizing the entire
percentage of loan amount by the
financial progress. end of 31
December 2024 .

1.3. Agriculture Sector Modernization Project – Part 02

The International Development Association had agreed to provide a loan of Rs. 9,175.88 million under Loan Agreement No. 5873-LK for the Agriculture Sector Modernization Project – Part 02 which was initiated in 2017, and the Government of Sri Lanka's contribution was Rs. 191.75 million. The project was scheduled to be completed on 31 December 2024. The project was extended on 01 occasions and was planned to be completed on 31 December 2024. The project had not submitted financial statements for the year 2023.

Some important information about the financial status of the project for the years 2021 and 2022 is given below. An unqualified opinion on the project's financial statements for the years 2021 and a qualified opinion for the year of 2022 had been given by the Auditor General.

Year	2021	2022
	Rs. million	Rs. million
Total expenditure for the year	1,317	2,164
Government funds		
Foreign funds		
Total assets	6,839	10,228
Total liability	712	728
Total funds		
Through foreign loans	5,459	6,810
Through local funds	68	76

In addition to the factors that led to the submission of the qualified audit opinion, several important audit observations that arisen from the audit reports submitted for the last 2 years regarding the project were as follows.

Audit Observation	Year	Auditor's recommendation	Preventive actions taken by the audited entity	Status of implementation of the recommendation as at the date of the report
(a) By 30 June 2023, 21 companies have been registered for the Pilot Project and 18 companies out of them have not been started business operation activities. Furthermore, 4 companies have not available office premises. It is problematic to the audit whether those objectives would be able to achieve in next one and half year.	2022	Efforts should be made to achieve the relevant goals within the operational period of the project.	The comments of Auditor General are admitted. Some Companies have already commenced their business operations and rest of the companies are in the processes of commencing their operations.	As at August 2024, one company had not commenced operations.
(b) The Central Provincial Project Office had spent an amount of Rs.168.2 million to provide planting materials and farming equipment to establish a group of 300 beneficiaries of dried chillies in the Kurunduwatta area of Gampola. Due to the fact that the number of farmers who could participate in the project was 177, the equipment purchased for 123 people had become an idle expense.	2022	Funds should be used efficiently and effectively.	Agree with the Auditor General's comments.	Farmers had abandoned their crops and the goods distributed by the project had become useless.

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| (c) | Due to the inability to find a plain land in the hilly areas of the Kandy district, where chilli is widely cultivated, such as the North Central Province, the chillies have been destroyed by rainwater and floods due to the Helmalu system, and it was necessary to find land of about half an acre in several places. And also, the use of pumps and the drip system were disabled. Although a chilli drying machine was installed in Kurunduwatta area, the use of the drying machine had also failed due to the fact that the farmers carrying chillies had to travel a distance of 13-40 km from the farm to reach the drying machine. | 2022 | The project should be planned and implemented as the desired goals can be achieved. | This area is suitable for Chilli Cultivation. Two times from this cultivation have already been harvested. As far as other areas where chilli is cultivated are concerned this area is also compatible for chilli cultivation. | The dryer had not been used until now and the drip system was idle. |
| (d) | The Agriculture Sector Modernization Project had started on 17 January 2017 and it has been taken about 22 months till 15 November 2018 for creating Monitoring Information System (MIS). On 15 November 2018, the contract was awarded to a private company for the value of Rs.8 million and | 2022 | The project should work to achieve the desired objectives within the relevant period. | Agree with the Auditor General's comments. | By the end of August 2024 , it was observed that the targeted objectives were not being implemented. |

according to the contract agreement, it was stated that a completed Monitoring Information System (MIS) should be provided for the project within 03 months from the date of signing the contract. This information system was not fully completed until December 2022 and the amount of Rs. 5 million spent was an idle expenditure.

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| (e) | According to the information, an amount of US dollars 6.2 million or Rs.904.89 million was allocated for the farmer training and capacity building programs of the project. Out of this amount of Rs.132 million had been spent by September 2022. The aim of implementing these training programs was to create farmer-related production associations. At the end of the training, the project officers had withdrawn from the contact and monitoring activities with the farmers in the cluster projects. As a result, the farmers had withdrawn from the | 2021
2022 | Project activities should be implemented as planned. | Training activities of farmers are continuously being done. Some of the Pilot Projects have been scaled up under ISP programme. Furthermore, 21 number Public Un-listed companies were established for Pilots projects. | Companies had been established for pilot projects, but farmer training and capacity development activities had not reached the desired goals. |
|-----|--|--------------|--|---|---|

pilot groups of this project and the amount of Rs. 132 million incurred for farmer training and capacity development had become an idle expenditure.

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| (f) | <p>Before selecting the beneficiaries of the Nawalapitiya Chilli Cultivation Project, equipment had been purchased for distribution to 300 farmers. By the end of September 2022, there were 86 beneficiary farmers who had not received the equipment in three farmer organizations and the agricultural centre. There were 380 of polythene cover rolls worth Rs.32.224 million in idly at the premises of Deputy Project Office in Matale due to the purchase of polythene cover roll without selecting the specific number of farmers.</p> | 2022 | <p>Project tasks should be properly planned and executed.</p> | <p>Comments have not been made by the management.</p> | <p>380 rolls of polythene covers worth Rs . 32.224 million were lying idle in a warehouse in Palwehera area of Matale district until August 2024 .</p> |
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1.4. Climate Smart Irrigated Agriculture Project

The International Development Association had agreed to provide a loan of Rs. 22,804.65 million under Loan Agreement No. 6346-LK for the Climate-Smart Irrigated Agriculture Project, which was initiated in 2019, and the Government of Sri Lanka's contribution was Rs. 4,024.35 million. The project was scheduled to be completed on 30 June 2024.

Some important information about the financial status of the project for the years 2021, 2022 and 2023 is given below. An unqualified opinion on the project's financial statements for the year 2021 and a qualified opinion for the two years of 2022 and 2023 had been given by the Auditor General.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure for the year	1,382	3,838	7,900
Government funds	60	100	420
Foreign funds	1,322	3,738	7,480
Total assets	3,733	7,426	20,020
Total liability	46	163	8
Total funds			
Through foreign loans	3,391	6,210	17,451
Through local funds	248	419	1,515

In addition to the factors that led to the submission of the qualified audit opinion, several important audit observations that arisen from the audit reports submitted for the last 3 years regarding the project were as follows.

Audit Observation	Year	Auditor's recommendation	Preventive actions taken by the audited entity	Status of implementation of the recommendation as at the date of the report
(a) The Project has made payment advance for Modernization of Agrarian Service Centers in Mullaitivu district and Monaragala District on 28 October 2020. However, the Modernization of Agrarian Service Centers had not been conducted.	2022	Tasks of the project should be properly planned and managed in such a way that they can be achieved.	Modernization of Agrarian Service Centres in Mullaitivu district has been delayed due to various reasons. Contracts have been awarded as a package for 03 Agrarian service Centers of Buttala, Wellawaya and Thelulla in Monaragala district. The proposed construction of Telulla Agrarian Services Centre has not been carried out because of no road access and flooding the construction site with rain water.	By the end of August 2024 , the modernization of the Agrarian Service Centers had not been completed.
(b) A building of 7020 sq had been leased for the Project Monitoring Unit and Rs. 960,000 had been overpaid as at the date of audit on 15 May 2023 due to	2022	Acquisition of assets and entering into contracts should be done more effectively, accurately and minimum	Considering the fact that there is a space with parking facility for about 10 vehicles and the size of the square feet, the relevant	This building is still in use and no arrangements had been made to relocate the office space.

violation of the report of the government assessor and exceeding the market value. Since only 32 employees were used this building, about 219 square feet was used for one employee.

This building is located about 4 km away from Borella-Battaramulla main road, employees have to spend more time and extra cost has to be spent for transportation.

transportation cost.

payments have been made. Rs. 660,000 is the value relating to the square footage of the building only.

Kindly point out those buildings with the above-mentioned prices and facilities cannot be found around Borella and Battaramulla.

- (c) Under the 2022 Accelerated Agriculture Program in Anuradhapura Ranorawa, Mahanikawa, 19 farmers were selected to cultivate chillies on ¼ acre of land per farmer and Rs.2.7 million has been incurred for the project. But when the project was physically inspected, only one farmer was engaged in chili cultivation and the other 18 farmers had left chili cultivation. Thus the expenditure incurred has become idle.
- Proper planning should be done prior to initiation of project. Correct instructions should be given to the beneficiaries and monitoring should be done properly.
- Agree with the observation. Firstly, 19 farmers were trained in chilli cultivation. After that they were directed for chilli cultivation. As whiteflies caused damage to the chilli crop, the crop was destroyed. In addition, due to the shortage of fertilizers farmers left chilli cultivation and turned to other crops.
- It was observed that farmers had abandoned chilli cultivation by September 2024.

- (d) There was a loss of 2022 Rs.7.6 million relating to the award of the procurement for the purchase and distribution of 15,762 sets of turmeric, ginger and fruit seedlings for the home gardening program in Kurunegala district due to rejecting of the lowest bid amounted Rs.12.9 million without the recommendations of the Technical Evaluation Committee and two bidders were awarded at Rs.20.5 million. Further, one of the three members of the procurement committee had refused to sign the procurement awarding. The member had complained in writing to the Secretary of Ministry on 21 November 2021 that the signature of the member who did not sign the procurement decision had been forged and the Secretary of Ministry had not conducted any investigation on the
- The Project should act as per the instructions in the procurement guidelines and should be done in a manner that would maximize efficiency for the government and recover damages from the responsible parties.
- If one of the three members of the procurement committee does not agree, in such a case, it can proceed Procurement. By not carrying out those activities, the said officer has neglected his responsibilities. In this regard, the reports issued by an internal auditor of the Ministry of Agriculture have recommended that preliminary investigations be carried out. Based on those recommendations , we have appointed preliminary investigation committees.
- Those losses had not been recovered by September 2024 . Meanwhile, farmers had abandoned this crop.

matter. The procurement decision was announced with only two signatures after informing the secretary that the procurement decision was forged. The payments had been made by the Project Director in Kurunegala without a single signature on the procurement decision, contrary to Finance Regulation 135(2).

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| (e) | It was contracted with Private company on 02 August 2022 for Construction of Ambagas wewa threshing floor valued Rs.6.5 million which was provided through Project for the 620 of budget heads that is Ministry of Agriculture of North Central Province. Suitable land for construction of threshing floor had not been selected and acquired by the Procurement entity before entering into the contract. 20 percent of the contract price on | 2023 | Proper planning should be done before starting the construction work. Funds of the project should be used sparingly. | Agree with the observation. | The advance bonds had not been taken over by August 2024. |
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advance bond was paid to the contractor and validity period of advance bond had been expired on 30 October 2023. The date was extended till 28 December 2023 without taking over the advance bond.

- (f) It was planned to develop 80 tanks under 05 Cascade systems in Puttalam district under an estimation of Rs.613 million through the Project. Contracts under an estimation at Rs.475 million had been given for the development of 30 tanks and the development of 50 tanks had been abandoned. Although the contract period of Walaswewa, Devala Kanda wewa, Saliya wewa, Pansala wewa, Jayanthi wewa and Tammannawa wewa, tanks which had been started under the supervision of the Agricultural District Office of Puttalam District has expired, 2023 Tanks under 05 Cascade systems should be completed on time as planned. The number of tanks to be developed in Puttalam district had to be reduced to 30 tanks and the development of remaining tanks had to be abandoned in 02 cases, due to decrease in the amount of dollars allocated for the project. The 06 tanks, developed under the supervision of the Department of Agrarian Development, Puttalam, have been handed over to the Department of Agrarian Development after completion of the work. The reduced dollar amount had been returned and the restoration of the abandoned tanks had not been resumed.

the renovation works were not completed.

(g)	<p>189 mechanical planting machines, 189 mechanical weeding machines and 95 seed planting machines were provided for 47 Agrarian Service Centers in 10 districts of the island with the aim of introducing the most suitable technology for paddy farming and Rs.215.43 million had been spent for that. Out of which, Rs.21 million costing 35 planting machines, 32 weeding machines and 15 seed planting machines as total of 82 machines were provided for 8 Agrarian Service Centers in Kurunegala district without the need and request of Agrarian Service Centers such as Rajanganaya Left bund, Tambuththa, Galgamuwa, Mahananperiya, Rambe, Ahetuwwewa, Ambaspola, Moragollagama. After 3 cropping seasons after</p>	2023	<p>Machinery should be introduced in a manner suitable to the type of paddy cultivated, the needs of the farmers and suitable to the farm land. Efforts should be made to collect the loss from the officials who have taken action to get the idle machines.</p>	<p>When consider the total number of Transplanter machines (189 Nos.) provided to the 47 ASCs, the Paddy planting progress up to 2023/24 Maha Season is 495.6 acres by 258 Farmers using 115 machines, which is 61 percentage usage compared to the total number of Transplanters. Also, when consider the up-to-date transplanting progress of the NWP, they have planted 283.8 Acs by using 27 Transplanter machines by 162 farmers. Hence, it is convinced, the usage of Transplanters and Power Weeders are gradually increasing, which leads to increase Paddy yield, while saving labour cost and Agro chemical</p>	<p>These machines are unused and idle by the end of August 2024.</p>
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providing those machines, By December 2023, only 118 farmers had cultivated 182.73 acres for all three seasons. 14 out of 35 planting machines from the provided machines were not used even once due to the agricultural machines not being suitable for cultivation. 13 of the 32 weeding machines provided were not used even once and 14 of the 15 seed planting machines provided were not used even once. Used machines were used only once or twice. Accordingly, the costs incurred were useless.

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| <p>(h) Project had spent 2023 Rs.50 million for the procurement of compost fertilizer production equipment to be distributed to farmers in the year 2021. Only one out of 2847 beneficiaries in Parangiyawadiya ,Konwewa and Galenbidunu Wewa areas who received</p> | <p>The compost fertilizer production equipment should be distributed based on the cultivation needs. Follow up on the released goods and seeds and give the necessary instructions and guidance.</p> | <p>The basis for selecting these farmers was, cultivation in 2021/22 Maha and being members of producer societies and mainly the production of compost by that time. As farmers limit compost production from</p> | <p>By August 2024, farmers had moved away from compost production.</p> |
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the compost fertilizer production equipment was producing compost fertilizer by December 2023. Accordingly, the cost of Rs.50 million incurred for compost production equipment was useless.

time to time and a series of training programs are implemented for farmers to increase production. Also, as per your instructions, it had been decided to recover all materials which are not used, provide them to other needy agencies after preparing documents and not to provide benefits to such farmers. Awareness and gathering information in this regard has already been started.

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| <p>(i) Although a 2023 Management Information System and an Accounting System should be installed at the beginning of the project and used for the project's tasks, the purchase/design of the systems software was done on 22 September 2022 and 17 October 2022 after 4 years from the starting of</p> | <p>Investigate and take disciplinary action against the officials responsible for procurement on direct contract basis and involved in delay in installation of Management Information System and Accounting System.</p> | <p>Management Information System Considering the nature of the scope and the justification, clearance has been given by the World Bank in order to proceed the procurement under Direct Contract method through the STEP reference number</p> | <p>As at August 2024, no disciplinary action had been taken.</p> |
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project. Rs.13.65 Mn for Management Information System and Rs.3.92 Mn for accounting system had been spent. However, the expected objectives of establishing the accounting system had not been reached.

LK-MOA-315134-CS-CDS. Accordingly, procurement was conducted under Direct Contract method for modification, Installation, Commissioning and Maintenance of off shelf GIS based Management Information System (MIS).

1.5. Smallholder Agribusiness and Resilience Project

The International Fund for Agricultural Development had agreed to provide a loan of Rs. 7,698 million under Loan Agreement No. 2000003227 for the Smallholder Agribusiness and Resilience Project, which was initiated in 2021, and the Government of Sri Lanka's contribution was Rs. 2,268 million. The project was scheduled to be completed on 10 June 2027.

Some important information about the project's financial status in 2022 and 2023 are as follows and an unqualified opinion on the project's financial statements for the year 2022 and a qualified opinion for the year 2023 had been given by the Auditor General.

Year	2022	2023
	Rs. million	Rs. million
Total expenditure for the year	8	140
Government funds		
Foreign funds		
Total assets	371	680
Total liability	0.01	0.087
Total funds		
Through foreign loans	363	687
Through local funds	8	28

In addition to the factors that led to the submission of the qualified audit opinion, several important audit observations that arisen from the audit reports submitted for the last 2 years regarding the project were as follows.

Audit Observations	Year	Auditor's recommendation	Preventive actions taken by the audited entity	Status of implementation of the recommendation as at the date of the report
(a) According to the Project Design Report issued on 04 November 2019, although it was planned to start the project in 2020, the financial agreement was signed on 10 June 2021. The duration of this project is 06 years. It was observed that the project has started financial and operational activities from August 2022. Accordingly, the physical progress of the project has been reported only 05 percent as at 31 December 2023	2022 2023	Tasks should be completed within the pre-determined time frame.	As at 31.12.2023 project mobilization, Participatory Village Entrance and initiatives have been started.	The physical progress of the project is currently progressing. By September 2024 , 10 percent physical progress had been achieved.
(b) When considering the progress of utilization of funds as at 31 December 2023, it was observed that the project utilized only USD 367,590 funds from USD 41.70 million of total allocation by the International Fund for Agricultural Development Loan. As a percentage, it was 1 per cent. Therefore, the utilization of funds is ineffective when considering the rest of	2023	Funds should be utilized efficiently.	Comments have not been made by the Management.	It was informed that work on the project is currently being carried out efficiently. By the end of September 2024 , USD 9.45 million had been used.

three and half year time period with balance funds.

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| (c) | Total contribution of government of Sri Lanka for the project is USD 12.70 million, the cumulative use of government fund as at the year under review is only USD 0.08 million and it is equivalent to 0.62 percent of agreed amount. This project is to be ended on 10 June 2027 and use of remaining 99 percent of agreed government fund in next three and half years is uncertain. | 2023 | The activities should be properly planned and used effectively and efficiently. | The management has accepted the observation. Further explanation has not been provided. | It was informed that work on the project is currently being carried out efficiently. By the end of September 2024 , USD 9.45 million had been used. |
| (d) | There was weakness of the internal control related to maintain general ledger in the areas of maintaining general ledgers without ledger codes, erroneous ledger posting since the entries are made batch wise and are not checked by any other officer the accuracy and the completeness of the entries, not maintaining of cash book etc. | 2022
2023 | Formal Internal controls should be maintained and an accurate accounting software system should be used. | To prevent recurrence of this type of issue in the future, PMU has taken actions to implement a new internal control system and corrective measures. | It was informed that work is currently being done to update the general ledger regularly. |

1.6. Smallholder Agribusiness Partnerships Programme

The International Fund for Agriculture Development had agreed to provide a loan of Rs. 8,892 million under Loan Agreement No. 2000002639 and 2000001984 for the Smallholder Agribusiness Partnerships Programme, which was initiated in 2017, and the Government of Sri Lanka's contribution was Rs. 8,278 million. . The project was extended on 01 occasions and was planned to be completed on 30 June 2025.

Some important information about the financial status of the project for the years 2021, 2022 and 2023 is given below. A qualified opinion on the project's financial statements for the year 2021 and an unqualified opinion for the two years of 2022 and 2023 had been given by the Auditor General.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure for the year	2,744	2,034	4,658
Government funds			
Foreign funds			
Total assets	7,036	14,677	17,652
Total liability	5	8	11
Total funds			
Through foreign loans	4,396	10,444	11,294
Through local funds	734	1,244	2,654

In addition to the factors that led to the submission of the qualified audit opinion, several important audit observations that arisen from the audit reports submitted for the last 3 years regarding the project were as follows.

Audit Observations	Year	Auditor's recommendation	Preventive actions taken by the audited entity	Status of implementation of the recommendation as at the date of the report
(a) The expected cost of the turmeric project was Rs.37 million, the actual cost incurred was Rs.15.6 million. The objectives of the project were to achieve a high level domestic and foreign market by improving the quality of turmeric production, establishing turmeric seed production units to meet the need for turmeric seed production, increasing the annual total income through turmeric cultivation, and also the goal of turning the farmer organization into a market-oriented social enterprise by increasing the capacity of the farmer organization had not achieved. This turmeric cultivation project had failed and the expenditure of Rs.15.6 million had become an idle expenditure.	2021 2022	Foreign market should be identified.	This project has been implementing successfully but due to government policy decisions affect the project critically.	As at now , the project has abandoned this turmeric project.
(b) For the Cavendish Banana Plantation Project, 28 beneficiaries had been given loans of Rs.15.6 million by the banks and the loan defaulted due to the	2022 2023	The project should be planned to achieve the identified goals.	28 beneficiaries had been given loans totaling Rs.15.6 million by the banks and the loan were defaulted due to	As at now , the project has abandoned this Cavendish banana project.

failure of the banana plantations.

the failure of the banana plantations. The expenditure incurred was an idle expenditure. Unless local varieties Cavendish banana needs synthetic fertilizer for their growth and for bearing fruits. Due to the policy decision taken by the Government to ban the chemical fertilizer the project was failed and these farmers couldn't get harvest.

- (c) The value of the contribution to be given by Lanka Eco Product Guarantee Limited, which is acting as the project producer, is Rs.34.6 million. As at 31 December 2020, the contribution made by this company is only close to Rs.9 million and it was observed that the expenses indicated by Lanka Eco Product Guarantee Limited are baseless false values as any payment vouchers or other relevant documents related to the expenses reported by the project were not in the institution.
- 2021 All activities should be supervised by the project management.
- 2022 Promoters were provided training on Book keeping, Accounting and File maintain with all supporting documents and requested to act accordingly.
- 2023 No steps were taken to correct the deficiencies.

(d)	<p>The Moringa cultivation project that was started in Anuradhapura district had failed due to the inefficiency of the officials and the promoter. Apart from the contribution value of the farmers, an expenditure of Rs. 25.52 million was incurred for obtaining water motors for drip irrigation based on the contribution of the project. Due to the failure of the Moringa project, the farming families associated with the project faced economic crises. The agreement entered with the promoters of the Moringa project had expired on 05 December 2021 and the Program Director had spent more than 18 months to notify the promoter.</p>	<p>2021 2022 2023</p>	<p>Before providing grants to promoters, supervision of their business should be done. Paid grant should be recovered from the ineffective promoters and relevant officials.</p>	<p>Until Covid 19 period, Moringa project has been successfully implemented with 116 farmers, demonstrating significant initial progress. Due to market collapse, the Promoter has been suspended purchasing due to challenges in the export market. The primary issue affecting the continuation of the project is the requirement for the product to be 100 percent organic to meet export standards. Due to soil residues detected, the project cannot currently satisfy these stringent organic criteria. Given the export constraints, the project has shifted its focus to fulfilling local market demands. However, this shift does not fully compensate for the intended export goals. Discussions were going on for revamping the project but due to</p>	<p>As at now , the project has abandoned the moringa cultivation project .</p>
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the inability of meeting the organic certification requirements, finally SAPP had to suspend the project.

- (e) Grants of Rs.9 million were received from the Agriculture Sector Modernization Project Part 01 under the Ministry of Plantation Industry at that time and grants of Rs.2.7 million were received for the construction of paddy warehouses (sailo) through the SAP program under the Ministry of Agriculture at that time by the owner of Parabowa Export Company who is the promoter of Parabowa Environmental Farmers Organization. The expected tasks of Rs.9 million grants received from the Agriculture Sector Modernization Project Part 01 were not fulfilled.
- 2023 During the implementation of the projects through the SAP program, the government officials of the area where the project is implemented should be coordinated.
- Parabowa Project is a value chain programme under the 4P concept signed with the Farmer Organization. Storage facilities are included in the traditional paddy cultivation proposal and the signed agreement. Therefore, the Smallholder Agribusiness Partnerships Programme has taken steps to implement the agreement by providing Rs.2.7 million as a grant for establishing that facility which is utilized for storing the paddy collected from farmers until exportation. We are informed by the promoter (FO) that Rs. 9 Mn has been granted to the Exporting
- When giving grants, it was observed that inspections was not being done at the regional level at the present.

Company for a
constructing a
noodles factory.

- (f) Although the project should be completed as at 30 June 2023, the project had been approved to continue till 30 December 2025 by the International Fund for Agriculture Development. When considering the progress of utilization of funds as at 31 December 2023, the project utilized only USD 28.16 million funds from allocated funds of the IFAD Loan of USD 54.4 million. As a percentage, it was 51.76 percent. Therefore, the utilization of funds were ineffective when considering the rest of two-year period with balance funds.
- (g) Total agreed contribution of government of Sri Lanka for the Smallholder Agribusiness Partnerships Programme is USD 19.30 million, the cumulative use of government fund as at the end of year under review was only USD 10.25 million and it was equivalent to 53 percent of agreed amount. This project is to be ended on 31 December 2025 and
- 2021
2022
2023
- The target should be completed within time frame.
- As of the end of May 2024, International Fund for Agriculture Development Fund utilization is 63 percent and Smallholder Agribusiness Partnerships Programme planned to reach 80 percent progress during this year.
- The expected target as at the end of August 2024 is US\$ 54.4 million , but it was observed that the achieved target was US\$ 36.31 million (as percentage-67), so the expected target may not be achieved by the end of the project period.
- 2021
2022
2023
- The target should be completed within time frame.
- As of the end of May 2024, Government Fund utilization is 72 percent and the Smallholder Agribusiness Partnerships Programme planned to reach 87 percent progress during this year.
- The expected target as at the end of August 2024 is US\$ 19.3 million , but it was observed that the achieved target was US\$ 14.17 million (as percentage-73), so the expected target may not be achieved by the end of the project period .

use of remaining 47
percent of agreed
government fund in next
two years is uncertain.

2. Water Supply and Sanitation Services Sector

2.1 Water Supply and Sanitation Improvement Project

For the water supply and sanitation improvement project started on 07 December 2015 under loan agreement number 5685 of the World Bank Rs. 24,750 million had been agreed to be given as a loan and the contribution of the Sri Lankan government was Rs. 2,840 million. The project had been extended in two occasions and was scheduled to be completed on 31 December 2023.

Some of the important information about the financial position of the project for the years 2021, 2022 and 2023 are shown below and the Auditor General had given a Qualified Audit Opinion to the financial statements of the project for the 3 years 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total expenditure of the year			
Government funds	200	150	173.88
Foreign funds	5,249	2,669.90	5,724.87
Total assets	31,773	63,877	60,357
Total liabilities	880	855	836
Total funds			
By Foreign loans	24,248	26,917.90	32,640.53
By Local funds	854	1004.20	1,178.08

In addition to the facts that led to the submission of the Qualified Audit Opinion, some important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

	Audit Observations	Year of the report	Recommendation of the Auditor General	Preventive Actions Taken by the Auditee Institution	Implementation Status of the Recommendation on Reported Date
(a)	Considerable delay ranging from 330 days to 2,158 days was observed in related to thirty-eight Projects in Urban and Rural Water Supply Schemes, Rehabilitation Projects, Public Sanitation, Indigenous Sanitation and School Sanitation projects even after granting extensions ranging from 01 to 07 occasions.	2023	Project should be completed within the expected time period.	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.	Work is underway to complete by 31 December 2024.
(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.	2023	Sand filter should be used to distribute clean water.	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.	Discussions are being made with CBO to implement filters in the project.
(c)	One contractor had been abandoned two rehabilitations 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.	2023	Contracts should be implemented to utilize the cost incurred.	Higher price hike of construction materials due to COVID -19 pandemic and economic crisis. Scope was reduced due to above reason.	The scope was reduced and new contracts were awarded and the work had been completed only according to the reduced scope by 30 September 2024.

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| (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. | 2023 | Expedite the process of handing over the system to the National Water Supply and Drainage Board. | National Water Supply and Drainage Board pipe lines are now under operation. Therefore, the community has requested to connect the CBO pipe system to the NWSDB pipe system and take over the CBO by NWSDB. | The process of handing over the system to NWSDB has been started. |
| (e) | Major Procurement 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 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. | 2023 | Should be Investigated to find the responsible officers for subdivision of activities of the Project and not complying with the contract conditions. | When the designs of a particular portion of substantial magnitude were completed, the procurement process was commenced for the respective package. | No correction has been made and this should be taken into account in future procurements. |
| (f) | Even though the Project was expected to be completed on 31 December 2020 and commenced the loan repayment from that day | 2023 | Project activities should be expedited to fulfill the expectations of the beneficiaries. | project period was extended due to reasons such as unexpected COVID -19 pandemic, | The project has not been completed within the stipulated period and has been extended for |

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.

economic crisis a period of 05 and import years 06 months restriction at the under additional final stage of the financing till 30 first project. May 2025.

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| <p>(g) Community contribution amount of Rs.551 million had not been obtained or 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 community contributions Rs.52 million for laying pipe in Malayalapuram had not been obtained.</p> | <p>2023</p> | <p>Should be adhered to the conditions of the Project Appraisal document whenever there are no special reasons.</p> | <p>Community contribution has been waived off Considering the issues of resettle people in Kilinochchi and Mullathiv districts in Northern province.</p> | <p>These contributions had not been taken.</p> |
| <p>(h) The Project had paid Rs.19 million to fourteen sub-contractors directly for Killinochchi District Projects in contrary to the condition no.43 of the contract documents.</p> | <p>2023</p> | <p>Conditions of the contract should be followed when making payments to the contractors.</p> | <p>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.</p> | <p>Had not been corrected.</p> |

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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 conditions in contract agreement. | 2023 | Should be complied with the contract agreement and action should be taken against who breached the conditions of contract. | Higher ground water table was affected the delay in construction of septic tank in Hidu Vidyalaya in Paranthan. Therefore, a time extension has been granted to the contractors by the project. | Had not been corrected according to the answer and there are defects in project planning. |
| (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. | 2023 | Feasibility study should have to be done before make plan and the estimate to avoid unnecessary variations and the cost. | Due to complex nature of the project and considering site conditions and other reasons a considerable number of Variations had to be introduced as necessary for the satisfactory completion of the project. | Had not been corrected. |
| (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 the delays in | 2023 | Expedite the settlement procedure to avoid delay charges and commitment charges. | We agree that there had been delays in submission of payment applications by the contractor to the project and also in the issue of the project staff | Had not been paid so far. |

approving the interim payment certificates and the delays in submission of interim payment certificates and variation orders by the contractor.

due to uncontrollable reasons.

- (l) According to the 2023 Requirement had These three The access road to comprehensive strategic plan and Road map included in the Manual of Water and 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.
- Requirement had been identified by the Project from the National plan 2020-2030. Therefore it should be investigated to find out the development of these septage plants against the national plan.
- These three Septage Treatment Plant projects were started on the requests made by relevant Local Authorities and after assessing the demands for safe disposal of fecal waste in these urban areas.
- The access road to Killinochchi Septage Treatment Plants is under construction stage.
- (m) Out of 24,000 lavatories scheduled to be constructed and revised to 22,000 in the 07 districts during the period of the project, 2023 Achievable target should be established after assessing the real need at the initial stage to avoid Only 607 individual latrine beneficiaries out of the planned target were dropped due to Had been informed to follow in future.

only 21,944 lavatories such that 91 per cent had been completed, out of 3,000 planned units of Household plantation sanitation, only 2,390 units such that 79 per cent had been completed and only 07 institutional sanitation units such that 50 per cent had been completed out of 14 planned at the end of the Project period.

unnecessary cost.

abandonment of residence and high fluctuation of rates in construction materials.

- (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 such that 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.
- 2023
- Need assessment should be done when planning the program to avoid unnecessary cost.
- Initially, it has been 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.
- Had been informed to follow in future.

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| (o) | The project had only achieved 49,423 out of 61,925 such that 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 such that 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. | 2023 | Achievable target should be established at the initial stage to avoid unnecessary cost. | The progress, as of 31 May 2024 was 15,358 or 71 percent. The project staff is working together with CBOs/EWHCSs to achieve the house connection targets of rural and Plantation Water Supply schemes. | It has been reported as reached by July 2024. |
| (p) | 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 CBOs distribute the water without testing the quality from time to time. | 2023 | Not fully handed over up to 30 June 2024. Action should be taken to utilize those idle assets. | All laboratory equipment had been handed over to the Board. | All laboratory equipment has been handed over to the Water Supply Board. No decision has been made regarding idle buildings. |
| (q) | 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. | 2023 | Reasons should be found and take necessary action to distribute clean water. | Based on water sample test reports, project staff continuously aware CBOs to take corrective action to improve the drinking water within SLS | It has been informed that CBOs are informed continuously. |

- standard.
- (r) Project had deployed 17 employees 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. 2023 2021 Strictly adhere with the provisions of Circulars. Required staff had been hired through short term service contracts for the continuation of the project activities. Approval of the Management Services Department had not been taken.
- (s) Seven projects were awarded to two contractors with poor progress and mobilization advance of Rs. 52.57 million was kept with them without being used effectively. 2022 The performance of existing contractors should be evaluated before awarding new contracts. Water is being pumped to the water treatment plant from the Ulhitiya dam. Washing and disinfecting is in progress. Connection to houses has to be done. Contracts were awarded to contractors who had not been corrected and had not completed the contracts on that date with time delays.
- (t) According to the financial statements submitted for audit, consultancy services cost of Rs. 961.14 million had been paid at the end of the year under review. However, according to regular physical audits conducted, due to poor monitoring and supervision of contracts, project terminations, extension of project time, approval of variations, approval of additional works, rescheduling of housing construction, etc. had 2022 2021 Management should reach a strong agreement with the consultant to overcome the weaknesses and take action against the poor performance of the consultants. A selection process based on quality and cost was used to select the ISC consultants. The situation remains the same.

continued.

(u)	125 items of fixed assets including computers and office equipment of the District Office at Nuwara Eliya were released to the Department of National Community Water Supply and the National Water Supply and Drainage Board without the prior approval of the Secretary to the Ministry of Water Supply.	2021	According to the conditions of the 3rd component of the project, the prior approval of the Secretary to Ministry of Water Supply should be obtained while releasing the assets of the project to the identified stakeholders.	The requirements of the Estate Housing Development Trust of the Board and Department of Community Water Supply have been identified and catered for as per the terms of the 3rd component of the project.	Release of assets is done through a committee on the recommendations of the Audit Committee of the Ministry.
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2.2 Water Supply and Sanitation Improvement Project - Additional Financing

For the Water Supply and Sanitation Improvement Project started on 04 September 2021 under loan agreement number 9255 LK of the International Bank for Reconstruction and Development Rs. 12,000 million had been agreed to be given as a loan and the contribution of the Sri Lankan government was Rs. 235 million and community contribution was Rs.588 million. The project had been extended at one time and was scheduled to be completed on 30 June 2025.

Some of the important information about the Financial Status of the project for the years 2022 and 2023 are shown below and the Auditor General had given a Qualified Opinion to the financial statements of the project for the year 2022 and Unqualified Opinion for the year 2023.

Year	2022	2023
	Rs. Million	Rs. Million
Total expenditure of the year		
Government funds	-	-
Foreign funds	380.10	5,449
Total Assets	2,196	7,218
Total Liabilities	65	591
Total Funds		
By foreign loans	2,131	6,627
By local funds	-	-

In addition to the facts that led to the submission of the Qualified Audit Opinion, some important audit observations arising from the audit reports submitted for the last 3 years related to the project are shown.

Audit Observations	Year of the report	Recommendation of the Auditor General	Preventive Actions Taken by the Auditee Institution	Implementation Status of the Recommendation on Reported Date
(a) In accordance with the requirements Section 2.3 of Chapter 2 of the Government Procurement Guidelines, Prior to the request to appoint a procurement committee from the National Procurement Agency regarding the construction of the septage treatment plant in Gampaha district, the procurement agency had not conducted feasibility studies such as social impact assessment and environmental impact assessment.	2023	All the clearances should be confirmed as per the guidelines before starting the procurement and action should be taken against the negligent officials in misusing the project funds.	Draft environmental assessment reports have been prepared and the World Bank has given its comments to improve the final report. All documents and clarifications have been submitted for approval as requested by Central Environment Authority. Further, the Coordination Committee of Gampaha District has approved the proposed project. After that, the National Housing Development Authority has allotted 02 acres of land within the waste disposal area of the Ranpokunagama housing scheme.	The contractual agreement had been canceled by mutual consent.
(b) The financial progress of 12 projects worth Rs.2,830 million was less than the physical progress due to the	2023	Advances cannot be taken as expenses until the relevant portion of the advance is deducted	Agree with the observation. However, the 20 percent advance payment is not	No answers have been given.

delay in submission of interim payment certificates and variation orders by the contractor and their approvals.

after sanction for payment is given. Therefore, the process of payment for certified work should be done.

included in the financial progress. Therefore, the 20 percent advance payment should be included in the financial progress.

- (c) There were significant delays ranging from 17 days to 244 days in respect of 23 construction projects due to improper planning of project duration. 2023 Project activities should be planned after environmental and other impact assessment. Therefore, management is responsible for not monitoring the work to avoid abnormal delays in this project. Adverse weather conditions caused the delay due to flooding of work sites due to heavy rainfall. Piping in the paddy area has to be stopped until the harvesting is over. Except for 2-3 months of the year, some areas are usually flooded. In progress with delays.
- (d) Although the initial expected completion date was 31 December 2023, the physical progress and financial progress of the Konaville Water Supply Project as on 31 March 2024 was 47 percent and 25.94 percent respectively. When the physical verification was done on 05 October 2023, only 12.23 km of the planned 69 km had been completed due to non-availability of 110 mm PVC pipes. Therefore, Rs. 164.4 million had been spent, 2023 Management should ensure that materials are available on time for the project to avoid unnecessary delay. Delays due to bad weather conditions and the need to stop tapping operations in the paddy area until the harvest is over. Physical progress is 70 percent. In progress with delays.

but the expected result of the project could not be achieved as planned.

- | | | | | | |
|-----|--|------|--|---|--|
| (e) | Although the Environment Authority has given approval for the project, the procurement work for the Prathika treatment plant at Kotwila in Matara district, which was planned to be built at an estimated cost of Rs. 180 million, was not done until 31 May 2024. Furthermore, the National Water Supply and Drainage Board had signed an MoU with the Matara Municipal Council on 01 September 2022 for the treatment plant. | 2023 | Availability of funds for the project should be ensured at the outset to avoid unnecessary delays in the work. | The procurement process for the construction of the Kotwila Reflex Treatment Plant cannot proceed due to the constraints in additional financing. | The project has not been implemented. |
| (f) | Even though the salaries of all staff of the Project for the month of November and December had been spent from the current financing agreement, the amount of Rs.13.9 has spent from the additional financing arrangement for salaries in the month of October 2022. However, man power requirement for the additional finance utilization had not been planned to execute the Project and to identify | 2022 | Carder requirement for the Project under Additional Financing should be established. | Since the salary is a project management cost and it falls under "Project Management Support" Component 4 in both funds, we used additional financing to pay 1 month salary payment, as the project staff engaged for both funds. | Corresponding rectification has not been done and current payments are made separately for projects. |

the cost of the staff
who were engaged to
the additional financed
project.

2.3 Water Supply Expansion Project- Kalu Ganga

The Kalu Ganga Water Supply Expansion Project started in the year 2017 was financed by the Japan International Cooperation Agency under Loan Agreement No. SL-P 117 of Rs. 45, 056 million had been agreed to be given a loan and the Sri Lankan government contribution of for that was Rs. 10,282 million. The project was planned to be completed by April 2025.

Some of the important information about the Financial Position of the project for the years 2021, 2022 and 2023 are shown below, in which the Auditor General had given Un-Qualified opinion to the financial statements of the project for the years 2021 and 2023 Qualified O pinion for the years 2022.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total expenditure of the year			
Government funds	25	18	6.9
Foreign funds	365	184	-
Total assets	514	972	967
Total liabilities	40	294	282
Total fund			
By foreign loans	452	635	635
By local funds	25	43	50

In addition to the facts that led to the presentation of the Qualified Audit Opinions, some important audit observations that arose from the audit reports submitted for the last 3 years related to the project were as follows.

Audit observation	Financial year	Recommendation of the Auditor General	Preventive Actions Taken by the Auditee Institution	Current Status
(a) Detailed design, drawings Preparation and contract documents were prepared and completed by June 2019 but the procurement process was not completed by the end of 2023.	2023	Actions should be taken to restart the project, complete the remaining work and fulfill the objectives of the beneficiaries.	From April 2022 disbursement was temporarily suspended and the Project Management Unit office was also temporarily suspended. This has severely affected the progress of the project.	Necessary steps have been taken to start disbursement of loans.
(b) Although the construction work was supposed to start in June 2020 and be completed by September 2023, by the end of the year 2023, all the constructions were at the pre-construction level.	2023	Actions should be taken to restart the project, complete the remaining work and fulfill the objectives of the beneficiaries.	From April 2022 disbursement was temporarily suspended and the Project Management Unit office was also temporarily suspended. This has severely affected the progress of the project.	Necessary steps have been taken to start disbursement of loans.

2.4 Sanitation and Hygiene Initiative for Towns Project (Phase – 01)

The Sanitation and Hygiene Initiative for Towns Project, initiated in 2016, was funded under Loan Agreement No. CLK 1013 – 01 K by the Agence Française de Développement, with a contribution of Rs. 13,224 million. The remaining sum of Rs. 4,524 million was provided by the Government of Sri Lanka. The Project was scheduled to be completed by 30 June 2022.

Some key financial information about the project for the years 2021, 2022, and 2023 is presented below. The Auditor General provided an unqualified opinion on the project's financial statements for 2021, 2022 and 2023.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	29	44	17
Foreign funds	300	538	-
Total assets	1,125	1,775	1,842
Total liability	-	-	-
Total Fund			
Through foreign loans	714	1220	1220
Through local funds	152	196	213

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years regarding the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
(a) The physical and financial progress of Management Support Consultancy were at 61 and 63 percent respectively by 31 December 2023.	2023	The possibility of restarting the project should be explored.	The RAMP Committee advised temporarily suspending the project.	The project has been temporarily halted.
(b) The procurement process of Sewerage Management skills development consultancy was scheduled to commence in November 2018, only the equipment contract (package 2) was awarded in November 2022, while other contracts remained unawarded as of 31 December 2023. The physical and financial progress of package 2 was 60 and 18 percent respectively.	2023	The possibility of restarting the project should be explored.	The RAMP Committee advised temporarily suspending the project.	The project has been temporarily halted.
(c) The bidding document of Construction of Collection System	2023	The possibility of restarting the project should be explored.	The RAMP Committee advised temporarily	The project has been temporarily halted.

with Pump House for Negombo Wastewater disposal system was submitted to SCAPC and received approval on 25 January 2022, and AFD no objection was received on 12 May 2022, bid calling was suspended due to AFD fund restrictions. The procurement process had not been completed by December 31, 2023.

suspending the project.

2.5 Kandy City Wastewater Management Project

The Kandy City Wastewater Management Project, initiated in 2010, was funded under Loan Agreement No. SL- P 99 by the Japan International Cooperation Agency, with a contribution of Rs. 17,922 million. The remaining sum of Rs. 4,060 million was provided by the Government of Sri Lanka. The Project was scheduled to be completed by 30 June 2022. The project was extended twice during its duration and is now scheduled for completion on December 31, 2024.

Some key financial information about the project for the years 2021, 2022, and 2023 is presented below. The Auditor General provided a qualified opinion on the project's financial statements for 2021 and 2022, while an unqualified opinion was issued for 2023.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	95	37	35
Foreign funds	3,126	1,083	-
Total assets	20,480	21,624	20,232
Total liability	1,054	1,059	1,054
Total Fund			
Through foreign loans	17,003	18,086	18,086
Through local funds	2,585	2,622	2,657

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years regarding the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
(a) Although a wastewater treatment plant with a capacity of 14,000m ³ /day was commissioned in March 2020, it is presently functioning at an average capacity of 5,500m ³ /day due to a lack of property connections. As a result, the project's objectives and outcomes have not been achieved, leading to numerous social and environmental issues.	2023	Actions should be taken to fulfil the objectives of the beneficiaries.	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, the Contract has been suspended temporarily.	JICA has notice concerning resumption of Disbursements under Japanese ODA Loans.
(b) According to the original implementation plan, the detailed design and property connection contracts for package 3 should have been completed in June 2013 and June 2017, respectively.	2023	The planned work must be completed promptly, without any further delays.	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.	

However, after more than six years of delays, as of 31 December 2023, the contract was suspended with a physical progress of 64 percent. This contract was planned to provide 9,276 property connections, but only 4,088 properties were connected to the sewer network as of 31 December 2023. This significant delay has severely impacted the entire project, making the achievement of the project objectives in risk.

(c) Although the 2023 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

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.

Since this contract was awarded through the Cabinet Tender Board, it was referred to the Ministry of Water Supply and Estate Infrastructure Development on December 29, 2021, for approval of variations.

The discussions are ongoing with Contractor

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 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.

<p>(d) A total of 1,855 2023 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. 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</p>	<p>Action should be taken to correct all errors before closing the project.</p>	<p>Since the final bill has not yet been paid, there is no need to enter into an agreement with the Package 2 contractor.</p>	<p>Corrective measures had not been implemented as of 31 December 2023.</p>
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pipe sagging was mainly caused by the contractor's errors and lack of proper supervision by the project management unit. 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.

(e) Due to the Package 2023
3 contract had not being completed as of March 31, 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.

Actions should be taken to fulfil the objectives of the Project.

The Contract has been suspended temporarily; hence it is not possible to provide property connections.

Polluted water from the premises was still being directly discharged into the Mahaweli River, Mada Ala, and Kandy Lake.

- | | | | |
|--|---|--|--|
| <p>(f) As of June 22, 2023
2024, 20 years
have passed since
the project began
acquiring land.
However, out of
the 9 plots used
for project
activities, only 2
have been settled.</p> | <p>Action should be
taken to expedite
the land acquisition
process</p> | <p>Required details
regarding this will
be submitted by
Land division.</p> | <p>The lands had not
been settled.</p> |
| <p>(g) Although the 2023
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</p> | <p>Action should be
taken to expedite
the land acquisition
process.</p> | <p>Required details
regarding this will
be submitted by
Land division.</p> | <p>A final decision
had not been
made.</p> |

2.6 Jaffna and Kilinochchi Water Supply and Sanitation Project

The Jaffna and Kilinochchi Water Supply and Sanitation Project, initiated in 2011, was funded under Loan Agreement No. 2710-SRI (Ordinary Operations), 2711-SRI (SF) (Special Operations), No. 3603-SRI and No. 3604-SRI (Additional financing) by the Asian Development Bank, with a contribution of Rs. 26,781.86 million. The remaining sum of Rs. 7,585.79 million was provided by the Government of Sri Lanka. The Project was scheduled to be completed by 30 June 2022. During the project period, Loan No. 2710 was extended three times, and Loan No. 2711 was also extended three times. The project was planned to be completed by June 2026.

Some key financial information about the project for the years 2021, 2022, and 2023 is presented below. The Auditor General provided a qualified opinion on the project's financial statements for 2021 and 2022, while an unqualified opinion was issued for 2023.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	360	143	347
Foreign funds	3,519	6,062	8,966
Total assets	15,442	23,530	31,760
Total liability	676	791	1,120
Total Fund			
Through foreign loans	11,306	17,369	26,335
Through local funds	1,344	2,487	2,699

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years regarding the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
(a) Mechanical, Electrical and SCADA package valued at 11.5 million U.S. dollars, was awarded on September 4 2023 and to be completed before 06 November 2024, however the poor performance, approximately 5 percent was shown on this task.	2023	Works should be completed within the scheduled period	The mechanical, electrical and SCADA contract is scheduled to be completed by July 2025.	Shows poor progress.
(b) Refundable Deposit Rs. 72,656,309 had been given to the Road Development Authority for laying of pipes in DN 01, TWTM 01, TWTM 02 had not been settled even it has passed five years since the completion of the work.	2023	Action should be taken to settle the Deposits.	Taking necessary action with RDA in order to reimburse the deposits from RDA.	Deposits have not been received.
(c) Five years of time had been taken to procurement process of Sea Water Reverse Osmosis Desalination Plant from December 2016. As per the contract agreement, operation and maintenance cost of this plant was Rs. 3,693,604,285 for 07 years and the operation	2023	Action should be taken to find a fund source to keep maintenance and sustainable use of this plant	The most of the delay is beyond the NWSDB control however the NWSDB is closing monitoring to catch-up the delay to complete the works. and PMU will take action to extend the loan closing	The contract had not been completed by March 2024.

and maintenance period was scheduled to be end in the year 2030 even the loan period was end on 30 June 2026, therefore it is a risk to keep maintenance incurring big money as above after the project period.

date to cover up the operation service period. Already, the PMU of JKWSSP is started the negotiation meetings with Asian Development Bank and the effective date of the ADB loan shall be extended before expiry of this loan.

(d) The contractor of SEA WATER REVERSE OSMOSIS PLANT has claimed USD 12.7 million, On May 22, 2023 for price inflation of raw materials mentioning some external uncontrollable reasons. However, as per the following reasons the contractor did not have right to claim price inflation adjustments.

Should be Agreed complied with conditions of agreement and the other rules, regulations, Decisions and Guidelines when taking decisions to make payments.

The discussions are ongoing with Contractor.

(i) It has been agreed that the contractor is not entitled to claim price inflation adjustments under Special Contract Condition No. 08 of FIDIC Clause 13.8, Price Adjustments.

(ii) Although Cabinet

decisions allow for price variations in contracts without specific provisions for such adjustments, this case does not qualify. Since price adjustment conditions are explicitly outlined in Appendix 2 of the contract agreement, a claim for price variations cannot be made based on Cabinet decisions.

(iii) According to the Bilateral Agreement between the Government of Sri Lanka and the Asian Development Bank, the contractor has agreed not to apply inflationary adjustments for Design and Build Contracts under Clause 13.8 of the Contract Conditions. Any payment of the price variation requested by the contractor must be approved by both parties to the agreement, as unilateral payment by one party would constitute a breach of the agreement.

(e) An additional amount of US\$ 4 million has been allocated for the	2023	Action should be taken to implement the contract.	The National Water and	The relevant contract has not been implemented.
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implementation of a suitable renewable energy option to power the desalination plant using seawater, as outlined in paragraph 38.33 (b) of the Cabinet Decision dated 22 December 2020. Although preliminary feasibility studies have been conducted for the establishment of a solar power plant as a renewable energy option, as of 31 December 2023, more than three years have elapsed since the Cabinet's decision, yet the relevant contract has not been executed.

Board has requested the National Planning Department to coordinate with funding agencies to obtain the necessary funds.

- (f) The general treasury 2023 had to pay Rs. 464.8 million as commitment charges on undisbursed loan balance from 2016 to 2023.

Action should be taken to minimize this kind of losses.

The contract delay led to this situation.

Action should be taken to prevent this situation from occurring in future projects.

2.7 Phase 2 Stage 1 Ratmalana/Moratuwa Wastewater Disposal Project

The Ratmalana/Moratuwa Wastewater Disposal Project, initiated in 2019, was funded under Loan Agreement No. CLK 1023 – 01 L by the Agence Francaise de Development, with a contribution of Rs. 15,414 million. The remaining sum of Rs. 6,268 million was provided by the Government of Sri Lanka. The Project was scheduled to be completed by 31 December 2024.

Some key financial information about the project for the years 2021, 2022, and 2023 is presented below. The Auditor General provided an unqualified opinion on the project's financial statements for 2021, 2022 and 2023.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	63	60.35	175.12
Foreign funds	1,427	148.50	-
Total assets	1,610	1,819	2,028
Total liability	-	-	34
Total Fund			
Through foreign loans	1,427	1,575	1,575
Through local funds	183	243	419

Several significant audit observations from the reports submitted over the past three years regarding the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
(a) Under the priority scope, 12,634 meters of gravity main, rider main,	2023	Actions should be taken to fulfil the objectives of the beneficiaries	Due to various reasons, progress was delayed, and the targets could	Due to the suspension of loan issuance, the selected priority

and force main
were supposed to
be laid by
December 31,
2023, but only
8,519 meters had
been completed,
resulting in 67
percent progress.

not be achieved. scope has been
implemented,
resulting in slow
progress as of
December 31, 2023.

2.8 Supporting Electricity Supply Reliability Improvement Project

The Supporting Electricity Supply Reliability Improvement Project, initiated in 2016, was funded under Grant Agreement No. 9186-SRI by the Asian Development Bank, with a contribution of Rs. 181 million. The Project was scheduled to be completed by March 2024.

Some key financial information about the project for the years 2021, 2022, and 2023 is presented below. The Auditor General provided a qualified opinion on the project's financial statements for 2021 and 2023, while an unqualified opinion was issued for 2022.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	2	2	2
Foreign funds	29	-	145
Total assets	227	243	385
Total liability	14	28	23
Total Fund			
Through foreign loans	197	197	342
Through local funds	16	18	21

several significant audit observations from the reports submitted over the past three years regarding the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
(a) Although the Seawater Reverse Osmosis (SWRO) plant,	2023	Action should be taken to fulfill the objectives of the beneficiaries	Due to the current water demand at it is difficult to	The beneficiaries have not been provided with water connections as expected.

<p>capable of producing 150m³ per day, has been completed, its daily water production is still less than 100m³. Due to this situation, only 400 out of 1,600 water connections have been established across the three islands, which has prevented the achievement of the project objectives.</p>	<p>without delay</p>	<p>increase the house connections with available water production. NWSDB is doing various feasibility studies to increase the water production at Nainathivu to satisfy the demand of the water.</p>
<p>(b) The procurement process for the construction of the ice-making factory and refrigeration system was suspended due to the unavailability of an electricity supply. As a result, the anticipated benefits intended for the fishing community on the three islands have been lost.</p>	<p>2023 Action should be taken to fulfill the objectives of the beneficiaries without delay</p>	<p>It is unable to implement the Ice cubes making Plant due to non-availability of CEB's Hybrid Power System and it is beyond control of the NWSDB. No steps have been taken to initiate the contract.</p>

2.9 Anuradhapura North Water Supply Project Phase 2

The Anuradhapura North Water Supply Project Phase 2, initiated in 2016, was funded under Loan Agreement No. SL-P 115 by the Japan International Cooperation Agency, with a contribution of Rs. 26,778 million. The remaining sum of Rs. 4,820 million was provided by the Government of Sri Lanka. The Project was scheduled to be completed by 31 December 2024.

Some key financial information about the project for the years 2021, 2022, and 2023 is presented below. The Auditor General provided a qualified opinion on the project's financial statements for 2021 and 2023, while an unqualified opinion was issued for 2022.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	11	17	18
Foreign funds	3	30	-
Total assets	401.3	428.4	455.9
Total liability	3.4	6.8	17.1
Total Fund			
Through foreign loans	186	216	216
Through local funds	36	54	71

several significant audit observations from the reports submitted over the past three years regarding the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
(a) The detailed design of the project has almost been completed, and now it is in the bidding assistance stage. However the Project has been delayed due to temporary suspension of JICA disbursement and concurrences since April 2022.	2023	Actions should be taken to restart the project.	The date of Closing of Bid Submission is extended indefinitely because of the prevailing problematic situation of the country and until JICA resuming their funds and concurrences.	Activate the loan disbursement from October 2024 and extend the loan disbursement period until June 14, 2031.
(b) Although the bidding procedures for the four main components have been completed, the construction contracts are still in the awarding stage due to the temporary suspension of JICA disbursements.	2023	Actions should be taken to restart the project.	The date of Closing of Bid Submission is extended indefinitely because of the prevailing problematic situation of the country and until JICA resuming their funds and concurrences.	The date of Closing of Bid Submission is extended indefinitely because of the prevailing problematic situation of the country and until JICA resuming their funds and concurrences.
(c) The Anuradhapura North Water Supply Project Phase II encompasses Kebithigollewa, Padaviya, Horowpothana, Kahatagasdigiya, and part of the Rambewa and	2023	Actions should be taken to restart the project.	The date of Closing of Bid Submission is extended indefinitely because of the prevailing problematic situation of the country and until JICA resuming	The date of Closing of Bid Submission is extended indefinitely because of the prevailing problematic situation of the country and until JICA resuming their funds and

Medawachchiya Divisional Secretary areas. These areas rely on unsafe groundwater, which contributes to dental and skeletal fluorosis, as well as being a major factor in the spread of chronic kidney disease. Therefore, the Government has prioritized the implementation of these water supply projects to provide safe drinking water. However, the project was scheduled to commence in June 2017 and be completed by June 2024. Although 170,951 people in the region will benefit from the project and the establishment of 67,000 new house connections has been targeted, construction contracts had not been awarded as of December 31, 2023. Over the 7-year period from 14 June 2017, to 14 June 2024, a loan totaling Rs. 27,197 million was allocated for project activities.

their funds and concurrences. concurrences.

However, by 31 December 2023, less than one percent, amounting to Rs. 439 million, had been utilized for project activities. This utilization was observed to be significantly below the expected level. Consequently, all activities were still in the procurement process, posing a risk to the achievement of project benefits for end-users, and the project may become a burden to the Sri Lankan economy.

2.10 Anuradhapura North Water Supply Project phase 1

Anuradhapura North Water Supply Project phase 1, initiated in 2013, was funded under Loan Agreement No. SL-P 110 by the Japan International Cooperation Agency, with a contribution of Rs. 8,726million and the remaining sum of Rs. 2,789million was provided by the Government of Sri Lanka. The completion date of the project was extended on 4 times and was finally planned to be completed on 05 July 2025.

Some key financial information about financial status of the project for the years 2021, 2022, and 2023 are presented below and The Auditor General had given a qualified opinion on the project's financial statements for the years 2021 and 2023, and an unqualified opinion for the year 2022.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	129	99	319
Foreign funds	1,607	627	-
Total assets	8,081	8,946	9,410
Total liability	517	658	822
Total Fund			
Through foreign loans	6,968	7,595	7,595
Through local funds	592	690	1,010

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years related to the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
1. Although, Rs.8,698.6 Mn valued fixed assets had been formally handed over to the Board through fixed asset forms during the year under review, capitalization entries had not been done in project accounts. Accordingly, the value of working progress had been overstated by Rs.8,698.6 Mn and property, plant and equipment account had been understated by same amount.	2023	Immediate actions should be taken to capitalize the handed over assets in project accounts in line with LKAS 16.	All the Asset Forms received so far has been handed over to the Regional Support Centre (North Central). Further, the captured assets have been entered to the Assets Management System (AMS) by PMU. Currently, the approval and capitalization works are being carried out by the RSC (NC).	Currently, the capitalization works are being carried out by the RSC (NC). Once the capitalization works are completed ,relevant entries will be passed in project accounts.
2. The main pipe civil contract for intake facility, water treatment plant, ground sumps, elevated tanks, office buildings, mechanical and electrical works (Lot A) was awarded on 23 March 2018 and initially scheduled to be completed by 20 April 2020. Subsequently, contract period had been extended 07 times up to 31 March 2024, due to failure of	2023	Remedial action should be taken to complete the Lot A contract package as planned without further delay and having losses to the country.	The progress of Lot A has been significantly delayed due to the impacts of the COVID-19, delays in the payment of Interim Payment Applications (IPAs), material shortages caused by the financial crisis, and issues related to water extraction from the Mahakanadarawa Tank. Despite	Once JICA disbursements are resumed again, All the remaining works of LOT A contract is expected to be completed before end of 2024.

the completion of contract on due date. As per the progress report of the project, overall physical progress of the contract was 99.7 percent at the audited date of 31 July 2024. However contractor has failed to fully complete the contract package within given extended period. Further it was observed that balance works such as SCADA remote site connection, lining of alum tank at water treatment plant, Landscaping of Ethakada and Issinbessagala tower premises, Installation of light fittings, bathroom fittings, landscaping works and other finishing works at Circuit Bungalow were to be completed even at the audited date of 31 July 2024.

these challenges, the PMU successfully urged the contractor to continue work in part by part, thereby avoiding a temporary suspension, while simultaneously negotiating with the Irrigation Department. We believe that the progress achieved during this critical period represents a positive outcome.

3. This project started in 2023 the year 2013, has been a critical endeavour aimed at providing safe drinking water for population of around 115,000 consumers. This includes the

Necessary actions should be taken to expedite the house connection transferring process in order to give the expected benefits to the beneficiaries without further

As the Water Treatment Plant has been handed over to the O&M, the house connection program is handled by the O&M. The new

Since, the Water Treatment Plant has been handed over to the O&M, the house connection program is

addition of 25,000 new house connections which covers 75 Gramaniladari divisions in Medawachchiya and Rabawa divisional secretariats in Anuradhapura district where the people depend on unsafe contaminated ground water which causes dental and skeletal fluorosis and highly tend to have chronic kidney diseases. Even though, water treatment plant had been commissioned and handed over to the O&M since October 2022 and currently overall physical progress of the project has reached to 99 percent totaling 3,721 connections had been given even up to 31 July 2024. Further it was observed that only 1,881 New Connections which is out of targeted new connections of 6000 in 2024 had been given by the audited date of 31 July 2024.

house connection totally progress is handled by majorly the O&M. dependent on the The new acquisition of house CBOs in both connection Medawachchiya progress is and Rambewa majorly DSDs. So far, 16 dependent on CBOs have been the acquisition of 3,002 new CBOs. connections have Currently, been provided New house under the connection acquired CBOs are being and 720 new provided connections have through the been provided newly laid pipe network from newly laid pipe network to achieve the target for the year.

4. Even though project 2023 activities had been commenced from 2013, no any major contract under the project had been fully completed even up to 31 December 2023. However the project is being dragged by the PMU incurring large amount of money as administration, consultancy, maintenance etc. and the Government expenditure such as loan installment(Rs.1,309 Mn), commitment charges(Rs.45Mn), loan interest(Rs.178Mn) is increased without having benefits to the economy in addition, without giving solution to the prevailing chronic kidney Disease (CKDu) in project area.
- Action should be taken to manage the unexpected situations and expedite the works to achieve the main objectives of the project and also reduce unnecessary cost
- The progress of the project has been significantly delayed due various reasons, However, as of now the Water Treatment Plant and Rambewa site were officially handed over to the O&M section on 1st October 2022. Then, the O&M section was able to feed all existing connections (1642) in the Rambewa (WTP) while new connections have been gradually integrated into the scheme. As of now, a total of 7,248 connections have been provided. The contract package Lot B has been completed and Lot C1 and Lot C3 contractors have completed their scope of work, with the Project management (PMU) is actively supervising and monitoring the Contractor's progress in order to complete the project in scheduled time period.

exception of
flushing and
disinfection
which is
expected to be
completed
within the next
month and
handed over to
the O&M.

2.11 Greater Colombo Water and Waste Water Management Improvement Investment Programme Project 3

Greater Colombo Water and Waste Water Management Improvement Investment Programme Project 3, initiated in 2016, was funded under Loan Agreement No. 3348 -SRI by the Asian Development Bank, with a contribution of Rs. 4,940 million and the remaining sum of Rs. 2,292 million was provided by the Government of Sri Lanka. The completion date of the project was extended on 3 times and was finally planned to be completed on 29 February 2024.

Some key financial information about financial status of the project for the years 2021, 2022, and 2023 are presented below and The Auditor General had given an unqualified opinion on the project's financial statements for the year 2021, and qualified opinion for the years 2022 and 2023.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	14	-	186
Foreign funds	3,471	2,492	1,737
Total assets	3,614	6,245	9,544
Total liability	1	140	1,016
Total Fund			
Through foreign loans	3,596	6,089	7,825
Through local funds	16	16	202

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years related to the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
1. The project had paid sum of USD 385,759.65 Plus Rs.345 million and USD 1,637,367.61 Plus Rs. 89.7 million to the main contractors of ICB 01 and ICB 02 contracts respectively and also Rs. 436.48 million to the ICB 03 contractor as prolongation Claims through variation orders using ADB funds based on the time extensions without taking consultant's recommendation.	2023	Project variation committee should approve such payments within the given authority limit, If there is a special requirement; need to have a prior approval from relevant authorities before release funds.	When evaluate the prolongation claim of ICB - 3 Contract, Project Consultants service period has expired and Consultancy Contract was not extended beyond October 2022. Hence the ICB-03 claim was evaluated by PMU/PIU staff of NWSDB.	All claims were carefully evaluated by PMU/PIU staff of NWSDB. Now the project is almost completed.
2. It was observed that the main contractor of ICB 3 contract had requested sum of USD 372,488 and Rs. 505.99 million as prolongation Claims, However Project had paid sum of USD 1,023,338 and Rs. 98.21 million equivalent to Rs. 436.48 million through a variation order. Further the project had paid	2023	Internal control procedure should be followed.	When the project evaluates the Prolongation Claim for the ICB -3 Contract, it was considered up to EOT – 7. Subsequently. Contractor request amount is CYN 50,822,695.83 plus USD 131,635.49 plus LKR 621,468,876.68. However, as per the contract	We assure that this point/fact will be highlighted in VO committee for any future similar variations.

USD 650,850 more than contractor requested USD amount in order to settle the requested Rupee amount, without having proper approval and considering the prevailing foreign currency crisis in the country. In addition, The Additional General Manager of the Water Supply Board had recommended the above Rs. 436 million valued variation order and also signed to the approval on behalf of General Manager violating the internal control procedures.

payment can be certified USD & LKR only. Therefore, it was recommended USD 1,023,338 plus LKR 98,211,794.09. Further, during the approval, period Additional General Manager (WSP) do the covering up duty on behalf of General Manager.

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| <p>3. According to the EOT documents, the contractors has agreed that they didn't have any right to claim additional cost other than contract value however, the project had taken action to pay for contractor's variation claims amounting to Rs. 532.91 million and USD 3,046,465.26 violating the above condition.</p> | <p>2023</p> | <p>Management should take necessary action to the poor performance/inefficiencies of contractors and to avoid unnecessary expenses.</p> | <p>As per FIDIC, General Condition of Contract clause 8.4 - The Contractor is entitled subject to Sub-Clause 20.1 [Contractor's Claims] to an extension of the Time for Completion, if and to the extent that completion for</p> | <p>The Employer agreed to both time and cost for some EOTs, while for others, only time was granted with the Contractor's agreement.</p> |
|--|-------------|---|--|--|

the purposes of Sub-Clause 10.1 [Taking-Over of the Works and Sections] is or will be delayed by any of the following causes: a Variation, Unforeseeable shortages in the availability of personnel or Goods caused by epidemic or governmental actions & etc.

When EOT was granted, evaluation was done based on above criteria. Accordingly, Employer agreed the time and cost for some EOTs. and time only granted in some cases with the Contractor's agreement.

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|---|------|---|--|--|
| 4. Although the physical works of ICB 01 and ICB 02 contracts had been completed on 15 March 2022 and 21 May 2022 | 2023 | Immediate action should be taken to get the relevant approvals for the exceeded Contract value and any extra payment of | Contract Sums of ICB-01 and ICB-02 were to be enhanced and the same required the Cabinet | Project has obtained the Cabinet approvals to enhance the Contract Sum in February 2024. |
|---|------|---|--|--|

respectively, final payments had not been done even at the audited date of May 2024 by the project.

Further it was observed that although lapse of 2 years from the completion of the above two contracts, final material reconciliation had not been done according to the FIDIC conditions clause 7.6 before settling the final bills.

ICB 03 and ICB 04 contracts as well.

approval. Accordingly Project has obtained the Cabinet approvals to enhance the Contract Sum in February 2024. Cabinet Approval process took more than 12 Months. Further there were shortcomings in the Contractors' Final Bills submitted caused the delay. Now, both ICB-01 & ICB-02 Final Bills are finalized. The Material Reconciliation also relates with the finalization of Final Bill. Now that too has been completed for both ICB-01 and ICB-02.

Now, material reconciliations have been completed, and Final Bills of ICB-01 & ICB-02 contracts have also been settled by the project.

5. As a result of low performance of the project as mentioned in the Paragraph 3.1 in this report, Significant delays were shown in disbursements of funds and due to that commitment charges of Rs. 183 million had to be paid to the government as at 31 December 2023.	2023	Action should be taken to complete the whole project without further delay avoids uneconomic expenses.	As of 31 December 2023, the cumulative commitment charges of ADB for 3348-SRI loan are LKR 183 Mn from loan effective August 2016. This loan, 3348-SRI was obtained to fulfill the additional fund requirements of 2947-SRI and 3029-SRI. And these loans have to be finished to use 3348-SRI loan. However, due to various reasons 2947-SRI and 3029-SRI disbursement didn't take place as expected and hence utilization of 3348-SRI got delayed caused the payment of commitment charges to ADB.	loan, 3348-SRI was obtained to fulfill the additional fund requirements of 2947-SRI and 3029-SRI. Disbursements from 3348-SRI loan had been delayed due to uncontrollable various situations.
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2.12 Greater Colombo Water and Waste Water Management Improvement Investment Programme Project 2

Greater Colombo Water and Waste Water Management Improvement Investment Programme Project 2, initiated in 2014, was funded under Loan Agreement 3029SRI and 3030 SRI (SF) by the Asian Development Bank, with a contribution of Rs. 10,394 million and the remaining sum of Rs. 3,523 million was provided by the Government of Sri Lanka. The completion date of the project was extended on 2 times and was finally planned to be completed on 29 February 2024.

Some key financial information about financial status of the project for the years 2021, 2022, and 2023 are presented below and The Auditor General had given an unqualified opinion on the project's financial statements for the years 2021, and a qualified opinion for the years 2022 and 2023.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	148	58	478
Foreign funds	3,235	4,292	1,493
Total assets	13,370	17,891	18,479
Total liability	534	705	202
Total Fund			
Through foreign loans	10,648	14,939	16,433
Through local funds	2,188	2,246	2,724

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years related to the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
1. Project funds amounting to Rs 12.3 million had been used to settle the expenditure incurred after the disbursement closing date of another project (loan No 2948-SRI of ADB project 01). Further, it was observed that the main contractor of ICB 03 (China Harbor Engineering – China Geo Corporation Joint venture) had deposited a sum of Rs. 10.7 million to the Bank account of National Water Supply and Drainage Board as per the written instructions given by the Project Director on 03 January 2023. The NWSDB had used that money to refund the unused advance balance of USD 28,543 as mentioned above violating the main objective of this Project.	2023	Action should be taken to rectify the issues and Project funds should not use for other activities other than the objectives of the project without having proper approval, and action should be taken to correct the accounting error.	When ADB requested the refund of 2948-SRI, USD 28,543.22 we have requested Addl. GM (Finance) to arrange the GOSL fund of the Project or Board funds. However, at that fund was not available in both GOSL and Board funds. Hence, with approval of General Manager (NWSDB), the repayment was arranged through ICB-03 Contractor. And as per the Contract, all the works executed under Provisional Sum item it is required to pay the Contractor's Overhead & Profit of 15%.	Funds were not available in both GOSL and Board funds. Hence, It had to get funds through ICB 03 contractor with approval of General Manager.
2. 23 DMA meters valued USD 246,337.80 (Current value approximately Rs.Mn.73.9) had been installed under the	2023	Action should be taken to correct the existing issues and achieve the expected	The flow meters are not sending data to the NRW Control room mainly due to battery exceeded the life time. Hence, we are in the	Currently, A local agent is investigating and troubleshooting the all DMA meters. Once it is

ICB contract 04 in 23 District metering area (DMAs) of Southern part of Colombo city to collect water flow measurement data with the purpose of manage non-revenue water. However, it was observed in the audit on 02 May 2024 that all those meters were been remained as defective and some meters were being inactive since 2021. Due to this issue it was seriously affected to execute the NRW management activities in effectively in all the district metering areas.

objective.

process of replacing the batteries through the recommended Local agent and it is under way. completed, corrective measures are taken to rectify those defective meters. The required batteries have been imported and being used in the replacement. Further NWSDB is going to sign a maintenance agreement with the local agent.

3. A stock of 2023 6548 Ningbo type domestic water meters which were coded as "NWS&DB" and valued at Rs.51.36 million (Approx.) had been imported by ICB 3 main contractor for project activities were been miss placed while they were in the custody of contractor in 2023. Meanwhile, It was found that 913 meters out of above were kept for sale in a private company.

Strong internal controls over stocks should be maintain to avoid fraudulent Activities in future and losses occurred due to this fraud should be recovered from responsible persons.

As per the Contract, maintaining the Storage Facility is the contractor's responsibility. When the issue was identified legal action against the material loss was initiated by Project Manager as well as NWSDB Internal Audit Section. After number of discussions Contractor agreed to supply the lost water meters and it was already informed to the Contractor that any material loss occurs by the Contractor, will Legal action has been initiated by NWSDB against the relevant party to recover the losses, which is in progress right now.

be deducted from their
Final Bill as per the
Condition of Contract

<p>4. Sum of Rs. 870 million had been paid violating the objective of the project to the ICB 3 Contractor in order to open the Letter of Credits (LC) to import 122,500 Nos. Domestic water meters and 100,000 Nos. Gunmetal ferrules for the Water Supply Board and it was included 15 percent contractor's profits and overheads amounting to Rs.113.56 million which should be ineligible to pay using project funds. Further it was observed that the project had purchased total amount of Rs. 1,657.87 million valued Connection materials and Rs. 293.85 million worth of Chemicals for the use of Water Supply Board through the main contractors of ICB 4 and ICB 3 respectively. However the project has paid sum of Rs 254 million as contractors' profit</p>	<p>2023</p>	<p>Project management should always adhere to utilize project funds only to achieve project objectives and the money which has already used for other purposes should be reimbursed.</p>	<p>During the USD crisis existed in 2022, NWSDB find difficulty to open LC (local bank LCs were not accepted by foreign suppliers bank) to the awarded Contracts to procure water meters, chemicals etc. To manage this crisis, with NWSDB board approval, General Manager (NWSDB) instructed to carry out the procurement through ICB-03 & ICB-04. This approach has already been reviewed by SCAPC during the Contract Price enhancement approval stage and it has recommended to pay the same via GoSL counterpart funds with necessary cabinet approval for the purchase of materials outside the Contract Scope. Now we are in the process of obtaining the necessary Cabinet Approval.</p>	<p>During the USD crisis NWSDB find difficulty to open LC to purchase the essential connection materials water meters, chemicals etc. To manage this crisis, with NWSDB board approval, General Manager (NWSDB) instructed to carry out the procurement through ICB-03 & ICB-04.</p>
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and overhead (15%) in respect of above supplies violating the main objective of the Project.

5.	Thelawala Training Center (CEWAS) was built under capacity building proposal of the project at a cost of Rs. 1,571 million and it was opened on December 2022 and according to the project proposal it can use for commercial purpose as well. During the year under review cost of Rs.41.63 million had been incurred as operational expenses and total income was Rs.27.28 million. Accordingly, the amount of Rs.14.35 million loss was recorded. Further it was observed that the Rs.7.22 million valued fully furnished office premise (337.5sqm), 2 No of computer labs, a library premise with furniture and a gymnasium with the value of Rs.4.1 million exercise equipment being	2023	Action should be taken to utilize the total assets to get value for money which incurred for this constructions.	The GCWWMIP Project had developed the Thelewala Training Center and handed over to NWSDB on December 2022 to operate. There is a different unit setup by NWSDB to look after the business operation of Training Center (CEWAS). The income and expenditure amounts stated in this particular query to be checked with the above referred unit established for Training Center operation.	Management of CEWAS is actively seeking to promote and publicize the training center through various channels. By successfully implementing these publicity efforts, CEWAS can attract more opportunities and expand its range of services.
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idled without any use since the date of opening.

<p>6. Project – 02 had been started with the objective of delivering better water supply services in an effective manner by reducing non-revenue water percentage below 18 percent. However, only 25 DMAs out of 42 DMAs had been fully completed and handed over to the NWSDB even after a lapse of 111 months from the date of commencement of the Project. However, the loan repayments have been started and Rs.4,293.25 million including commitment and interest charges amounting to Rs. 95.11 million and Rs.1,852.47 million respectively had been paid by the government as at 31 December 2023.</p>	2023	<p>Action should be taken to complete the project soon to avoid further financial burden to the country.</p>	<p>There are several reasons for the project extension such as</p> <ul style="list-style-type: none"> • No accurate as-built details of the existing water supply scheme • Unforeseeable site conditions encountered during the pipe laying works • Work time restricted largely to night time • Approval delays by the authorities (i.e. CMC, Police) for road opening permits • Bomb blast in April 2019 • Covid-19 disruptions 	<p>Now Project – 02 has achieved 99.8 percent physical progress .PMU is planning to fully complete the project before end of 2024.</p>
<p>The above stated reasons are beyond the control of the Contractor and Employer. Hence, the project is extended by the General Manager based on the time to request made by the Contractor and evaluated by Project Consultants.</p>				

7.	Rs.14,599 Million valued fixed assets had not been handed over to the National Water Supply and Drainage Board even it had passed 2 years after the revised completion date of the project.	2023	Immediate action should be taken to handover the assets formally to the NWSDB.	Agreed. It will be completed once we complete the final bills of the Contracts which is targeted by end of 2024.	Asset capitalization works were started, Once the final bills of the Contracts are completed, whole asset base can be fully capitalized.
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2.13 Greater Colombo Water and Waste Water Management Improvement Investment Programme Project 1

Greater Colombo Water and Waste Water Management Improvement Investment Programme Project 1, initiated in 2013, was funded under Loan Agreement No. -2947 SRI and No 2948-SRI (SF) by the Asian Development Bank, with a contribution of Rs.

11,088million and the remaining sum of Rs. 3,696million was provided by the Government of Sri Lanka. The completion date of the project was extended on 3 times and was finally planned to be completed on 30 June 2021.

Some key financial information about financial status of the project for the years 2021, 2022, and 2023 are presented below and The Auditor General had given an unqualified opinion on the project's financial statements for the years 2021 and 2022, and a qualified opinion for the year 2023.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	310	5	241
Foreign funds	784	34	(9.24)
Total assets	17,780	17,202	17,433
Total liability	690	74	79
Total Fund			
Through foreign loans	13,437	13,470	13,461
Through local funds	3,656	3,661	3,902

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years related to the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
1. 14 Crew Cabs and 07 Double Cabs bought under the project have been transferred to the Board. However as per the Board's asset registers only 16 vehicles had been received. Hence, project management failed to provide evidence to the audit about 5 vehicles valued at Rs.28 Mn.	2023	Immediate action should be taken to provide the sufficient information related to unrecorded five vehicles.	Balance Vehicles (5 Nos) details will be provided immediately.	Currently Balance Vehicles (5 Nos) details are being prepared and will be provided soon.
2. This project was initiated with the aim of reducing the percentage of non-revenue water from 49 percent to below 18 in Northern and eastern Part of the Colombo City and 36 DMA meters were installed with the value of USD 383,710.2 approximately Rs.Mn.115 to obtain the flow measurements data to execute the NRW management and to see the progress of the target. However, 31 DMA meters out of 36 above had been remained as inactive due to discharge	2023	Management should be liable to failures of this component and need to take immediate action to rectify the existing issues and get the expected results.	The Project is in the process of obtaining the after sales service from the manufacturer of flow meters. The required batteries have been imported and being used in the replacement. Further NWSDB is signing maintenance agreement with the local agent for periodic maintenance of the flow measurement system installed for Colombo City.	Currently, A local agent is investigating and troubleshooting the all DMA meters. Once it is completed, corrective measures are taken to rectify those defective meters. Further NWSDB is going to sign a maintenance agreement with the local agent.

batteries and defective data loggers at the audited date of 28 May 2024. Further it was observed that some meters were been inactive since 2022.

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| <p>3. Those DMA meters had been purchased in the years 2016 and 2017 with 3-year manufacturing warranty and installed after laps of two years from the date of purchase. Further it was observed that the warranty period of 31 out of 36 meters had been expired even at the time of installation. However, the project management had still not taken actions to rectify those defective meters and enter to an agreement with a manufacture authorized local agent to keep maintenance of those meters and even extend the supplier's warranty period as installation process of the flow meters was seriously delayed.</p> | 2023 | <p>Project management should responsible to complete the given task within scheduled time frame.</p> | <p>The flow meters were purchased from a single brand to ensure the compatibility. And as per the original project plan it was planned to be completed by 2018. However, due to various site difficulties encountered by the main Contractor during pipe laying, DMA formulation took more time than the anticipated. Hence the delay happened in the installation.</p> | <p>Currently, A local agent is investigating and troubleshooting the all DMA meters. Further NWSDB is going to sign a maintenance agreement with the local agent.</p> |
| <p>4. A contract valued at Rs.11Mn to build a water meter testing</p> | 2023 | <p>Action should be taken to recover the financial</p> | <p>Legal action has been initiated by NWSDB against</p> | <p>The contractor has given forge documents and</p> |

workshop at main store premises in Ratmalana had been awarded to a private contractor with an advance payment of Rs.2 Mn in the year 2014. Even though after a lapse of 10 years from the date of awarding the contract by April 2024, the contractor had not done any work related to the contract and the management had not taken any action to extend the period of the advance payment guarantee or encash those guarantees.

losses from the contractor or responsible officer.

the relevant party. Legal action has been initiated by NWSDB against the relevant party to recover the losses.

5. Even though, physical progress of the project had been completed since two years and also final bills of the Contracts had been paid to the contractors, asset capitalization works in relating to the Rs.16, 452 Mn valued fixed assets had not been completed and formally handed over to the National Water Supply and Drainage Board.

2023

Immediate action should be taken to accelerate the asset capitalization process and windup the project without further delay.

Since Pkg 1 & 2 final bills are completed, This total amount will be Added to the Capitalization through Asset Forms

At the present, balance asset capitalization works are being carried out by NWSDB, with plans to complete them before the end of 2024.

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| 6. Even though it had passed two years after handed over all roads where pipelines were laid to the Colombo Municipal Council, no action had been taken to recover the Rs.109 Mn valued security deposits done regarding constructions carried out by the project. | 2023 | Immediate Action should be taken to recover the security deposit without further delay | Already requested the CMC to release the security deposits for the handed over roads | Actions are being taken to get back the security deposits. |
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2.14. Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 (Ambathale Water Supply System Improvement and Energy Saving Project)

Ambathale Water Supply System Improvement and Energy Saving Project, initiated in 2014, was funded under Loan Agreement No. CLK 1008-01P by the Agence Francaise De Development, with a contribution of Rs. 9,100 million and the remaining sum of Rs. 3,900 million was provided by the Government of Sri Lanka. The completion date of the project was extended on 3 times and was finally planned to be completed on 30 June 2024.

Some key financial information about financial status of the project for the years 2021, 2022, and 2023 are presented below and The Auditor General had given an unqualified opinion on the project's financial statements for the years 2021 and 2023, and a qualified opinion for the year 2022.

Financial Year	2021	2022	2023
	Rs.(Million)	Rs.(Million)	Rs.(Million)
Total expenditure for the year			
Government funds	116	155	1,492
Foreign funds	2,218	4,933	-
Total assets	6,222	11,380	12,677
Total liability	263	333	139
Total Fund			
Through foreign loans	5,018	9,943	9,943
Through local funds	949	1,104	2,595

In addition to the factors that resulted in qualified audit opinions, several significant audit observations from the reports submitted over the past three years related to the project are summarized as follows.

Audit observation	Financial Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present Situation
1. Contract for Design Review and Construction Supervision Consultancy Service of the Project was awarded at a cost of Rs.461 million to a private consultancy service company on 01 December 2015 to complete within 36 months. However, The Consultancy contract of ICB 05 and ICB 03 had not been completed and long delays, inefficiency and poor performance of the contractors were shown throughout the project period. As a result, period of the consultancy had to be extended to 6 times up to 30 June 2024, Further Sum of Rs. 21 million had been spent for the inputs of the consultancy contract during the 6th extension. Hence, overall cost of consultancy service of the project has been increased by Rs.159 million more than estimated consultancy cost and consultancy	2023	Consultant should be closely supervised the activities of the project to complete within scheduled period and to reduce further losses	The Contract package delays given in clause 4.1.1 and 4.1.2 cause to delay the mobilize the consultant key experts to avoid the payments to key experts. However, with the progress of contract packages the consultancy service had extended from the saving of non-mobilizing the key experts previously. Since ICB 03 & and ICB 05 are still ongoing, period of the consultancy service is required to be extended. Obtaining formal approval was delayed since the Cabinet approval was received on 25th July 2024.	Since ICB 03 & and ICB 05 contracts are still ongoing and in critical stage, period of the consultancy service is required to be extended. The Cabinet approval and board approval were received on 25th July 2024. Accordingly; Consultancy Service contract is going to further extend up to 31 December 2024.

contract was still in progress even at the date of audit 10 July 2024 without having a formal approval

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| <p>2. The contract for the construction of Gothatuwa 15,000m³ reservoirs and booster pump station with supply and laying of 05 km DI pipes (ICB 03) was scheduled to be completed by 06 June 2023. Subsequently, it had been extended four times up to 07 May 2024. The overall physical and financial progress was remained at 86 percent and 83 percent respectively as at 31 December 2023 and it was 93 percent and 85 percent respectively even as at 30 June 2024. Further the consultant of the project had mentioned in his progress reports that the poor performance of ICB 3 contractor had directly impacted to long delay in completing the project.</p> | <p>2023 Remedial action should be taken to complete the ICB 03 contract package as planned without further delay and having losses to the country.</p> | <p>The primary factors contributing to the delays are outlined in Item 4.1.1. and weak soil conditions, a large number of underground utilities, and additional work resulting from design changes have been significant issues impacting the latest Extension of Time (EOT) request.</p> | <p>ICB 03 contract is scheduled to be completed by 30 November 2024. Currently, the overall physical and financial progress was remained at 88.50 percent and 95.62 percent respectively as at 30 September 2024.</p> |
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3. Even though project 2023 activities had been commenced from 2016 and initial completion date was 31 December 2019 and no of three times extension has given no any main contracts under the project had been fully completed even up to 31 July 2024. However, the project is being dragged by the PMU incurring large amount of money as administration, consultancy, maintenance etc. and the Government expenditure such as loan installment (234 Mn), Commitment charges (390Mn), Interest (621Mn) were incurred without having any benefits to the economy on the other hand without having achieved the expected objective of reducing high energy consumption the NWSDBs cost for water supply is increased as well. Further, contractors poor planning, poor performance and also poor contract supervision by project management had adversely affected to
- Action should be taken to manage the unexpected situations and expedite the works to avoid further financial burden to the country.
- Despite the challenges outlined in sections 4.1.1 and 4.1.2, which have contributed to the project delay, the Project Management Unit (PMU) has not intentionally caused any delay. Additionally, the delay cannot be attributed to poor planning, performance, or supervision by the contractor.
- Nevertheless, the current progress of the project has resulted in notable positive outcomes. At the Ambatale Water Treatment Plant, observed energy savings amount to Rs. 18.5 million per month, representing approximately 11% of the total electricity cost. These savings are expected to continue and potentially increase further upon the project's completion.
- The current progress of the project has resulted in notable positive outcomes. At the Ambatale Water Treatment Plant, observed energy savings amount to Rs. 18.5 million per month, representing approximately 11% of the total electricity cost.

achieve the objectives of the Project.

<p>4. Contract for reliability enhancement and energy saving of Ambathale production facilities for saving energy through installation of efficient pumps with appropriate capacities (ICB 05) was planned to be completed by December 2020. Subsequently, the contract period had been extended four times up to 30 April 2024. Even though this contract represents 45.60 percent of weightage from the whole Project activities, the overall physical and financial progress had shown as 65 percent and 47 percent respectively as at 31 December 2023 and it was 75 percent and 48 percent respectively even as at 30 June 2024.</p>	2023	<p>Project management should take actions to overcome the project inefficiencies and unnecessary delay by closely supervising Contractor's works.</p>	<p>The contract has experienced delays due to the issues outlined in Clause 4.1.2. These delays have had a continuous impact on the contract's progress. Construction and Mechanical & Electrical (M&E) work for the Sludge Treatment System and Backwash Recovery System are still ongoing and the overall physical and financial progress was remained at 79.83 percent and 52.29 percent respectively as at 30 September 2024. reasonable progress. The Contractor has requested an additional Extension of Time up to 31 December 2024. The project staff is actively supervising and monitoring the Contractor's progress, and other civil work can be completed; however, it is not feasible to complete the project before December 2024.</p> <p>The Contractor has requested an additional Extension of Time due to these delays. Cabinet approval for the project extension has been granted until December 31, 2024. The project staff is actively supervising and monitoring the Contractor's</p>	<p>Construction and Mechanical & Electrical (M&E) work for the Sludge Treatment System and Backwash Recovery System are still ongoing and the overall physical and financial progress was remained at 79.83 percent and 52.29 percent respectively as at 30 September 2024. reasonable progress. The Contractor has requested an additional Extension of Time up to 31 December 2024. The project staff is actively supervising and monitoring the Contractor's progress, since this package is the critical component in whole project.</p>
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progress to ensure adherence to the revised schedule.

5. Rs. 86 million was allocated to construct a Booster pump house at Moragasmulla area to pump water to Moragasmulla water tank under the ICB 3 Contract and after completed the construction works up to 93.88 percent, that project was terminated by Water Board with taking decision to feed water to the Moragasmulla water tank in high pressure by connecting pipeline directly to the 1200 mm transmission pipeline which laid up to Maligakanda area under ICB 03 contract. However, when this decision taking, Rs. 66.5 had been spent including Rs. 28.86 million price escalation as additional claim for the abandoned project. Hence all cost incurred for this project was uneconomical.
- 2023
- Project management should always adhere to utilize project funds only to achieve project objectives
- Initially, it was planned to construct a 15,000 m³ ground reservoir at the IDH hospital premises. Accordingly, the pressure in the transmission system was insufficient to supply water to the Moragasmulla Tower. However, as a result of relocating the 15,000 m³ reservoir to the Ambatale Water Treatment Plant, the system became a direct distribution system, which increased the transmission pressure. Consequently, there is no need for booster pumps to supply the Moragasmulla service area until the early 2030s.
- Even though, there is no need for a booster pump house at this stage, which will be required from the mid-2030s to meet the projected water supply needs of the Moragasmulla area.
- The change in reservoir location was beyond the control of the NWSDB and therefore cannot be considered poor planning. Booster

pumps will be required from the mid-2030s to meet the projected water supply needs of the Moragasmulla area.

<p>6. The main contractor of ICB 05 had requested an amount of USD 5,691,179.76 of price escalation claim by the letter No ZHSZJH/2857/05/23 dated 24 May 2023. However the Management is not responsible to pay such price escalation claim as it is a design and build nature contract and no any other provisions to pay price escalation as per the agreement.</p>	<p>2023</p> <p>Project management should always adhere to utilize project funds only for the fund allocated items in bidding document. (Since, this is Plant, Design and Build contract, No provision has made for the price escalation) Further, It is suggested that recommendation of Internal Audit (Technical division) of NWSDB should be taken before releasing funds for these kind of controversial payments. .</p>	<p>We have received a claim from the ICB 05 Contractor for price escalation. The Contractor has requested an adjustment due to significant increases in the cost of inputs required for their work. The Contractor argues that these price increases are unforeseeable and beyond their control, and therefore were not accounted for at the time of signing the agreement. The claim is currently under evaluation. We are carefully reviewing all relevant details and considerations to ensure that any decision made will be fair and in compliance with the terms of the agreement. We will provide further updates once the evaluation process is complete.</p>	<p>The claim is currently under evaluation. We are carefully reviewing all relevant details by project VO committee and considerations to ensure that any decision made will be fair and in compliance with the terms of the agreement. We will provide further updates once the evaluation process is complete.</p>
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7. A contract, valued at 2023 Rs. 129 million to construct 06 staff quarters units within one year time period had been awarded to a private contractor on 10 August 2021. Even it has given four extensions up to September 2023 and having some remaining works the board had terminated the contract on mutual agreement and paid Rs. 131.51 million including 44.12 million price Escalation cost. Further it was observed in the audit field visit on 10 July 2024 that whole tile work and so many finishing works were still remained to complete at the site.
- Immediate action should be taken to complete the remaining works and handover the asset to the NWSDB.
- In the Initial Contract, price escalation was not accounted for. However, following the signing of the Contract Amendment -1, price escalation was introduced. Despite this, the Contract Bill of Quantities (BOQ) did not include a Provisional Amount. As a result, price escalation was addressed under the Physical Contingencies of the Contract, which has since exceeded the 10% contingency limit. Consequently, both parties have mutually agreed to terminate the Contract due to the escalation of construction resources. Given the critical importance of completing the construction work for the staff quarters, efforts are ongoing to secure the necessary approvals and find additional funds to complete the
- When considering the critical importance of completing the construction work for the staff quarters, all efforts are ongoing to secure the necessary approvals and find additional funds to complete the balance work.

remaining work.

It is important to note that NWSDB has not misused public funds. The sudden increase in construction material costs, driven by a financial crisis, led to substantial price escalation. This situation is beyond the control of both the Contractor and the Employer.

2.15. Greater Colombo Wastewater Management Project Greater Colombo Wastewater Management Project

The Greater Colombo Wastewater Management Project, which was initiated on 09 April 2010, was approved by the Asian Development Bank under Loan Agreement No. 2557 SRI (SF) and No. 2558 SRI (SF) for a loan of Rs. 10,783.65 million, with the Government of Sri Lanka contributing Rs. 1,813.46 million. The project was extended in 6 instances and was scheduled to be completed by 30 June 2023.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is given below. The Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2023.

year	2021	2022	2023
	Rs Million	Rs Million	Rs Million
Total Expenditure for the year			
Government Funds	145	99	21
Foreign Funds	690	753	725
Total Assets	14,567	15,412	16,038
Total Liabilities	289	365	49
Total Funds			
Foreign loans	12,184	12,853	13,647
Local Funds	2,094	2,194	2,342

In addition, some important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

Audit observations	Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present situation
(a) It was stated that a maximum of 22 days should be worked for the payment of the advisory allowance however when checking the payment voucher, It was observed that in case of non-attendance for a maximum of 22 days the full advisory allowance was paid. When checked the payment vouchers from January to November 2021, a total of Rs. 3.9 million had been paid for non-working days.	2021	Advisory allowance should be paid in accordance with the rules and regulations.	Action had not been taken to recover the over payment	Project was close due to expiration of project period. Allocation had been made by the commence to completable work.
(b) Three officers were appointed for the arbitration and no written evidence was presented to the audit as to how the officers were selected and the approval of the Secretary to the Ministry was obtained for the appointment. As at 31 December 2021, a total of Rs. 1.7 million has been paid to the three officers.	2021	Should get the proper approval before payment.	Action had not been taken to get approval	Project was close due to expiration of project period.
(c) The General Treasury has paid Rs. 122 million as commitment charges on the undisbursed loan balance of the OCR loan	2021	This cost should be minimized through proper Project planning.	No	Project was close due to expiration of project period.

from 15 February 2010
to 15 August 2021.

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| <p>(d) In the year 2021 seven officers of the policy supporting group were paid Rs.2.5 million and one meeting were held. Although nearly 70 months had elapsed since the completion of the project by 31 December 2021. Rs.41.2 million had been paid to the policy supporting groups from the inception of the project as at 31 December 2021 the contribution of policy supporting group to the project was unable to evaluate due to non-submission of performance reports of policy supporting group.</p> | 2021 | <p>The Group No actively contribute to the achievement of Project objectives and evaluate their performance.</p> | <p>Project was closed due to expiration project period.</p> |
| <p>(e) Designing, construction, and Rehabilitation of wastewater pumping station and pumping mains.
Although the project was scheduled to be commence on 9 April 2010 and to be completed on 30 June 2015, the closing date has been extended for 6 instances until 30 June 2023.</p> | 2022 | <p>The project should influence the contractor to complete the works promptly assuring the required level of quality.</p> | <p>Project was closed due to expiration project period.</p> |
| | 2022 | No | |

<p>(f) Under ICB Contract No. GCWMP/ADB/PS/01/IC B/Works/03/2013 for Design, Construction, Installation and Renovation of Wastewater Pumping Stations of Colombo Municipal Council. It had been agreed to supply mandatory spare parts worth Euro 887,104, USD 937,976 and Rs.52.4 million. However as at 31 December 2022, mandatory spare parts worth Euro 739,906, USD 777,736 and Rs.52.4 million should have been supplied.</p>	<p>Immediate action should be taken by the Project Office and the Colombo Municipal council regarding the stock of currently supplied spare parts and supplying the mandatory spare parts to be supplied further.</p> <p>No</p>	<p>Project was closed due to expiration project period.</p>
<p>(g) Due to the inability to complete the construction of 04 pumping stations namely Vystwyke, Borella, Thimbirigasaya and Maligawatta, the machines and equipment</p>	<p>2023</p> <p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.</p> <p>No</p>	<p>Allocation had been made by the government to complete balance work</p>
<p>(h) brought in 2016 for those 04 pumping stations could not be installed in the pumping stations up to 31 December 2022</p>	<p>2023</p> <p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project Period.</p> <p>No</p>	<p>Project was close due to expiration project period</p> <p>Allocation had been made by the government to complete balance work</p>
<p>(i) Greater Colombo Wastewater Management Project - In terms of Loan Agreement No. 2557 SRI and 2558 SRI, the project was scheduled to commence on 04 April 2010 and was to be completed on</p>	<p>2023</p> <p>Expedite action is required to taken to complete the activities of the Project before</p>	<p>Construction Work Started</p>

30 June 2015 however the closing date of the project was extended up to 30 June 2023. Accordingly, the completion of the project was delayed by 96 months.

expiration of the Project Period.

No

Due to the inability to complete the construction of 04 pumping stations namely Vystwyke, Borella, Thimbirigasaya and Maligawatta, it was observed that as a temporary solution, the waste water will have to be pumped under a By Pass method and thus the project will not be able to generate the expected benefits.

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| (j) | The Financial Management and Accounting System which was introduced to Drainage Division valued at Rs. 3.2 million had been idle since 2017. | 2023 | Steps should be taken to use foreign investment effectively. | No | Step had not been taken to Use |
| (k) | After completing of the constructions of three Pumping Stations, they were handed over to the Colombo Municipal Council and during the pre-commissioning testing done on 24 | 2023 | To prevent environmental damage by carrying out quality construction. | No | Action had not been taken to rectify. |

November 2021 at the Slave Island Pumping Station It was observed that the Force Main was damaged and the machines of the Pumping Station remained idle. It was further observed that the wastewater was being discharged to the Beira Lake through an open canal, resulting an environmental damage.

2.16. Greater Colombo water and Wastewater improvement investments Management Project Tranch-02

The Greater Colombo Water and Wastewater Management Improvement Investment Program Tranche- 02, which was initiated on 23 September 2014, was approved to provide a loan of Rs. 1,042.88 million under Asian Development Bank Loan Agreement No. 3030 SRI (SF), with a contribution of Rs. 187.72 million from the Government of Sri Lanka. The project was extended in 02 instances and is scheduled to be completed on 22 October 2023.

Some of the important information regarding the financial position of the project for the years 2021, 2022 and 2023 is given below, and the Auditor General has given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs Million	Rs Million	Rs Million
Total Expenditure for the year			
Government	25	108	20
Funds			
Foreign Funds	50	1,018	95
Total Assets	539	1,703	1,758
Total Liabilities	47	77	17
Total Funds			
Foreign loans	380	1,406	1,501
Local Funds	112	220	240

In addition, some important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

Audit observations	Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present situation
(a) Wastewater treatment plant at Madampitiya				
The land for the construction of the wastewater treatment plant had not been acquired by the Urban Development Authority by 31 December 2021 and Environmental Impact Assessment report preparation was temporary halted				
(b)				
Provide Sewerage facilities for 7 unsaved areas in Northern catchment.	2021	Expedite action is required to taken to complete the activities of the program before expiration of the program period.	Action had not been taken to expedite the work	Project had not been closed due to expiration of project period
(c) The bidding for the contract for the geotechnical investigation has not been completed.				
(d) Rehabilitation and upgrading of existing 5 miner pumping houses in north catchment.				
Condition assessment had not commenced as at 31 December 2021				
(e) Baseline trunk sewer from Malligawtta to Madampitiya pumping station.				
Draft bid document was				

completed but work not awarded

Upgrading, rehabilitation and repair of sewers in northern catchment.

The draft bids were submitted to the Asian Development Bank for review on 28 September 2019 but were not approved

- (f) **Conditional Assessment of 97.2km of existing Sewers by using CCTV and special devices.** 2021

Although The procurement process Was Initiated in 2016, the Contract was awarded on 12th October 2021 after a lone delay.

Action is required to minimize the time wasting and should complete the activities of the program before expiration of the program period. Action had not been taken to expedite the work Project had not been closed due to expiration of project period.

- (g) According to the contract agreement entered into with the consultancy firm, payments are made as per the time basis. Due to the delay and non-implementation of the contracts caused by the reasons such as the delay in the selection of construction contractors and release of lands, a fruitless payment had been made to the consultancy firm for the contract supervision.

- i. Obtaining 2022 recommendations related to the quality testing of 59 kilometers

Study should be done by Executing Action had not been taken to expedite the work Project had not been closed due to expiration

of the existing sewer system.	Agency.	of project period
<p>ii. Supervision of the contract related to the construction of partly completed Talakotuwa and Kalinga Mawatha pumping stations including the underground and pressure sewer network system, that have been partly completed over 22km, and 7km yet to be fully laid with pipes.</p>		
<p>iii. Supervision of the contract of the construction of wastewater treatment plant to be newly built in Wellawatta.</p>		
<p>iv. Supervision of the construction contract related to the laying of Kirula- Narahenpita sewer network system over 12.4 kilometers and two pumping stations.</p>		
<p>v. Supervision of the renovation of existing wastewater sewer network system in the Southern catchment area.</p>		

(h) Design, Supervision and Institutional Development Consultant

Although the programme was schedule to be commenced on 3 June 2014 and to be completed on 30 June 2019, the closing date has been extended for two times until 24 October 2022. Overall project progress is 57.27 percent as at 24 October 2022. However, programme was closed with uncompleted project outputs.

(i) Wastewater Treatment Plant at Madampitiya 2023

It was observed that due to the delay of construction of the Madampitiya Wastewater Treatment Plant, about 95,000 cubic meters of wastewater received daily to the Pumping Station has to be discharged into the sea without any treatment.

(j) Provide Sewerage Facilities for 7 Unsaved areas in Northern Catchment.

The contract for the Topographical Survey of the Pumping Station sites and road network has been completed.

Action should be taken to make allocation and implement the program

Action had not been taken to expedite the work

Project had not been closed due to expiration of project period

However, the bidding for the contract for the geotechnical investigation has not been completed. Information on consultancy contract costs incurred as on 31 December 2022 was not submitted for audit and delay period was about 51 months as at 31 December 2023.

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| (k) | <p>Agreement was signed with the firm for Closed-Circuit Television contract beyond 8 month of project closing date without any funding arrangement. The CCTV contract was terminated on 24 October 2022 with Rs.3.12 million additional payment due to project closing. However, 58 kilometers of gravity sewers out of 89 kilometers and 1242 manholes out of 1974 had not been completed.</p> | 2023 | <p>Action should be taken to use assessment report by CMC.</p> | <p>Action had not been taken to expedite the work</p> | <p>Project had not been closed due to expiration of project period</p> |
| (l). | <p>According to the contract agreement signed by the Secretary to the Ministry with the consultancy firm, the consultancy firm is required to carry out detailed planning, construction beautification and project management. Nevertheless, according</p> | 2023 | <p>Study should be done by Executing Agency.</p> | <p>Action had not been taken to expedite the work</p> | <p>Project had not been closed due to expiration of project period</p> |

to the contract agreement signed with the M/S Larsen and Toubro on 04 May 2017, preparation of plans for the construction of pumping stations, renovations, laying high pressure pipes and gravity pipes for the second segment had been handed over to the contractor. Accordingly, it was observed that while making payments to the consultancy firm for planning activities, payments were also made to the contractual company for that task, thus making double payments for the same purpose.

2.17 Greater Colombo Water and Wastewater Management Improvement Investment Program Phase – 03

The Greater Colombo Water and Wastewater Management Improvement Investment Program Phase - 03, which was initiated on 03 November 2016, was approved to provide a loan of Rs. 13,471.16 million under the Asian Development Bank Loan Agreement No. 3348 SRI (SF) and 3349 SRI (SF), the Government of Sri Lanka's contribution was Rs. 2,930.60 million. The project was extended in 02 instances and was planned to be completed on 24 October 2022.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below. The Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs Million	Rs Million	Rs Million
Total Expenditure for the year			
Government Funds	212	43	04
Foreign Funds	1,218	513	619
Total Assets	5,929	6,710	6,838
Total Liabilities	781	809	471
Total Funds			
Foreign loans	4,063	4,773	5,157
Local Funds	1,085	1,128	1,210

In addition to the reasons for presenting that audit opinion, several important audit observations arising from the audit reports submitted for the last 3 years regarding the project were as follows.

Audit observations	Year	Recommendation of the Auditor General	Preventive measures taken by the institution	Present situation
<p>(a) Provision of new gravity sewers, Force mains and Pump stations for Kirulapone catchment area.</p> <p>Although the contract was scheduled to be commenced on 18 May 2017 and completed on 14 May 2020, contract was extended up to 30 July 2022. Accordingly, it was observed that the contract was delayed for about two years.</p>	2021	<p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.</p>	No	<p>Project was closed due to expiration of loan period.</p>
<p>(b) Financial Management and Accounting System (FMAS)</p> <p>The financial management and accounting system which was introduced to drainage division valued Rs.3 million had been idle since 2017.</p>	2022	<p>Action should be taken to use the system</p>	No	<p>System is idle</p>

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|---|-------------|--|-----------|--|
| <p>(c) For the purpose of giving prompt solutions to the issues arising in the implementation of projects, a Policy Supporting Group consisting of the officials from the Colombo Municipal Council, the Ministry of Local Government and the Western Provincial Council was appointed since the year 2010 and a sum of Rs. 6.5 million was paid to those officials as salary by 31 December 2022. However, the loan could not be used within the contracted timeline and consequently, a sum of Rs. 118.7 million was to be paid to the Asian Development Bank as at 31 December 2022 as commitment charges for the unused loan balance. Accordingly, it was observed that an assistance from the aforesaid Policy Supporting Group was not received for the successful implementation of the project.</p> | <p>2022</p> | <p>Should actively contribute to the achievement of Project objectives and evaluate their performance and this cost should be minimized through proper Project planning.</p> | <p>No</p> | <p>The project was closed due to loan period was expiration.</p> |
| <p>(d) In terms of loan agreement, the Program was scheduled to commence on 3 November 2016 and was to be completed on 31</p> | <p>2022</p> | <p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.</p> | <p>No</p> | <p>The project was closed due to loan period was expiration.</p> |

December 2020 however the closing date of the Program as extended to 24 October 2022.

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|--|-------------|--|-----------|--|
| <p>(e) Provide Sewerage Facilities to Kirula – Narahenpita Area</p> <p>Although the contract was scheduled to be commenced on 23 October 2017 and completed on 10 April 2020, the contract had not been awarded as at 31 December 2023.</p> | <p>2023</p> | <p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.</p> | <p>No</p> | <p>The project was closed due to loan period was expiration.</p> |
| <p>(f) Repair of Defective sewers and upsizing of under – capacity sewers in Southern Catchment and Implementation.</p> <p>Although the contract was scheduled to be commenced on 01 November 2019 and completed on 05 December 2021, the contract had not been awarded as at 31 December 2023.</p> | <p>2023</p> | <p>Expedite action is required to taken to complete the activities of the Project before expiration of the Project period.</p> | <p>No</p> | <p>The project was closed due to loan period was expiration.</p> |
| <p>(g) Wastewater Treatment Plant is the main sub project under the Greater Colombo Water and Wastewater Management Improvement Investment Programme -3 which was allocated USD 44.37 million, Basically, the Contract of the Construction of Wastewater Treatment</p> | <p>2023</p> | <p>Action should be taken to write of the value as a lost.</p> | <p>No</p> | <p>The project was closed due to loan period was expiration.</p> |

Plant was scheduled to be commenced on 21 June 2017 and scheduled to be completed on 14 December 2019. However, The Contract was awarded on 18 December 2020 after 30 months delay, and the agreement was signed with contractor on 21 October 2021. As per the Contract Agreement, land had to be handed over to the contractor within three Months for construction work. Due to the failure of Project Management to hand over the land up to 30 December 2022, the contract was terminated and Rs. 619 million was paid to the contractor as a termination charge and accounted as a non-current asset without developing any asset.

03. Highways Sector

3.1 Integrated Road Investment Programme

The Asian Development Bank had agreed to provide a loan of Rs. 104,000 million under loan agreements Nos. 3171, 3221, 3222, 3325 and 3610 for the Integrated Road Investment Programme initiated in 2014 and the contribution of the government of Sri Lanka for this was Rs.13,780 million. The programme period is 10 years and is scheduled to be completed on 01 June 2024.

Some important information about the financial position of the programme for the years 2021, 2022, and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the programme for those 03 years.

Year		2021	2022	2023
		Rs. million	Rs. million	Rs. Million
Total expenditure for the				
year	Government	42	9	9
	Funds	10,129	14,492	5,760
	Foreign Funds			
Total Assets		85,187	209,173	198,986
Total Liabilities		7,329	17,691	8,085
Total Fund				
	Through Foreign Loans	76,926	187,063	187,002
	Through Domestic Funds	656	665	674

In addition to the factors that affected to the qualified audit opinion, several important audit observations that were raised from the audit reports submitted in the last 03 years regarding the programme were as follows.

	Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a)	Although the employer shall pay the amount certified in each IPC within 56 days as per the General Conditions of the contract, provisions had been made for delay interest of Rs. 284.77 million as at 31 December 2023 due to the delay in the payment of Rs. 2,671.28 million payable to contractors for civil works as at 31 December 2023. Therefore, the government had to bear additional costs due to payment delays to contractors.	2023	Measures should be taken to minimize delay interest and should be certified the accuracy of the claims.	Payments had been delayed due to limited funding.	Unpaid bills outstanding for more than 56 days further remained.
(b)	Since 318 out of 335 vehicles had been handed over to the RDA which was purchased by the Program itself before completion of the road rehabilitation works. The Program had decided to hire 14 vehicles for the use of PMU and	2022 2023	Investigation should be conducted to identify responsible officers for mismanagement and misuse of the assets.	The acquisition of vehicles on rental basis was discontinued in 2024.	Relevant investigations had not been conducted.

provincial offices and a sum of Rs.16.36 million had been paid as at 15 December 2023 as rent for those vehicles.

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| (c) | <p>The four contractors who were already awarded the rehabilitation works on the Pelmadulla-Embilipitiya-Nonagama main road were also awarded the rehabilitation works on the Balangoda-Bowatta-Kaltota road without following the procurement procedures contrary to the recommendation of the Secretary of the Ministry.</p> | <p>2023</p> | <p>Adhere to the conditions of the Procurement Guideline and action should be taken on responsible officers for non-compliance to the guideline.</p> | <p>A preliminary investigation had been conducted by the Ministry.</p> | <p>Further action had not been taken regarding non-compliance with procurement procedures.</p> |
| (d) | <p>A length of 165 km of national roads and 2,825 km of rural roads only had been completed out of the total selected length of 370 km of national roads and 2,905 km of rural roads after laps of 09 years as at 31 December 2023.</p> | <p>2021
2022
2023</p> | <p>Maximum effort should be taken to achieve intended targets of the Program within the time frame.</p> | <p>Only essential works are being carried out on selected roads.</p> | <p>Only essential works are being carried out on selected contracts due to funding restrictions of the lending agency.</p> |

- (e) Advances totaling 2022 Rs. 2,793.41 million 2023 in 12 terminated contract packages in 05 Provinces could not be recovered from those contractors as at 31 December 2023 due to injunction orders obtained by contractors, Also there was an outstanding advance payment of Rs. 2,668.47 million due to the delay in recovering through advance bonds.
- Immediate actions should be taken to recover by encashment of the advance bonds or losses should be recovered from responsible officers and disciplinary actions should be taken.
- It was observed that recovery by failure further existed.
- The recommendations had not been implemented.
- (f) The ability to 2023 recover the Mobilization Advances of Rs.6,250.03 million given under the road rehabilitation contract as at 31 December 2023 remained uncertain due to the decision to carry out only critical works owing to delays in payments to contractors and the limitation of the concessionary loan provided by the Asian Development Bank.
- Impact of the rescheduling should be ascertained and maximum effort should be taken for change, the condition of contract agreement.
- Arrears of recovery of advances further existed.
- Action had not been taken to amend the contract conditions.

3.2 Second Integrated Road Investment Programme

The Asian Development Bank had agreed to provide a loan of Rs. 137,070 million under loan agreements Nos. 3579, 3580, 3851, 4067 and 4384 for the Integrated Road Investment Programme initiated in 2017 and the contribution of the government of Sri Lanka for this was Rs.28,115 million. The programme period was scheduled to be ended on 31 March 2027.

Some important information about the financial position of the programme for the years 2021, 2022, and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the programme for those 03 years.

Year		2021	2022	2023
		Rs. million	Rs. million	Rs. million
Total expenditure for the				
year	Government	5	6	3
	Funds	38,232	27,017	390
	Foreign Funds			
Total Assets		91,426	200,336	201,874
Total Liabilities		12,652	5,122	10,605
Total Fund				
	Through Foreign Loans	78,974	187,626	183,114
	Through Domestic Funds	83	89	757

In addition to the factors that affected to the qualified audit opinion, several important audit observations that were raised from the audit reports submitted in the last 3 years regarding the programme were as follows.

Audit Observation	Report ed Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a) The project was planned to improve 3,654.95 km of rural roads under 53 packages in 04 provinces and according to the Facilities Administration Manual, road rehabilitation work was planned to be completed by June 2023. However, 2,115 km or 57.87 percent progress only had been achieved by the end of 2023 and the project period had been extended until 31 March 2027.	2021 2022 2023	Maximum effort should be taken to achieve intended targets of the Program within the time frame.	Only essential works are being carried out on selected routes.	Only essential works are being carried out on selected contracts due to the reduction of funds by the lending agency.
(b) Although the employer shall pay the amount certified in each IPC within 56 days as per Sub Clause 14.7 of the General Conditions of the contract, it was observed that payables to contractors for civil works was Rs.5,558.94 million as at 31 December 2023. Out of that, Rs.1,188.03 million was certified IPC values of year 2022 which had not been paid even end of the year 2023. As per sub clause 14.8 of the general conditions of the	2022 2023	Measures should be taken to minimize delay interest and should be certified the accuracy of the claims.	Payments have been delayed due to funding limitations.	Unpaid bills outstanding for more than 56 days further exist.

contract, a provision of Rs. 284.77 million had been made for delay interest as at 31 December 2023.

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| <p>(c) The ability to recover the Mobilization Advances of Rs.8,197.88 million given under the road rehabilitation contract as at 31 December 2023 remained uncertain due to the decision to carry out only critical works on the roads owing to delays in payments to contractors and the limitation of loan funds provided by the Asian Development Bank.</p> | <p>2022
2023</p> | <p>Policymakers should introduce measures to recover the advances when descopeing the balance works of rehabilitation.</p> | <p>Advance recoveries are not being further pending.</p> | <p>Mechanisms had not been introduced to recover advances.</p> |
| <p>(d) The advances of 10 terminated contract packages in the Uva, Northern and Western provinces, totaling Rs. 2,014.10 million could not be recovered from the relevant contractors as at 31 December 2023 due to injunction orders obtained by contractors against the recovery of outstanding advance payments through advance guarantees obtained from the relevant financial institutions.</p> | <p>2023</p> | <p>Immediate actions should be taken to recover by encashment of the advance bonds or losses should be recovered from responsible officers and disciplinary actions should be taken.</p> | <p>It was observed that recovery failure remains unchanged.</p> | <p>The recommendations had not been implemented.</p> |

3.3 OPEC Funded Road Network Development Project

The OPEC Fund for International Development had agreed to provide a loan of Rs. 4,560 million under loan agreement No. 1452 P for the OPEC Funded Road Network Development Project initiated in 2013 and the contribution of the government of Sri Lanka for this was Rs.2,561.32 million. It was extended on 05 occasions during the project period and planned to be completed on 02 February 2025.

Some important information about the financial position of the project for the years 2021, 2022, and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the project for those 3 years.

Year		2021	2022	2023
		Rs. million	Rs. million	Rs. million
Total expenditure for the				
year	Government	56	15	36
	Funds	75	85	419
	Foreign Funds			
Total Assets		5,334	5,499	12,481
Total Liabilities		65	53	109
Total Fund				
	Through Foreign Loans	4,760	4,945	11,836
	Through Domestic Funds	399	414	449

In addition to the factors that affected to the qualified audit opinion, several important audit observations that were raised from the audit reports submitted in the last 3 years regarding the project were as follows.

Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a) 2,772 plots of lands were expected to be acquired by the project and compensation of Rs.245.13 million for 730 plots of lands and delayed interest of Rs.58.24 million for 155 plots of lands had been paid as at 31 December 2023. However, the possession of 147 plots of land only had been acquired as at 31 December 2023 as per sub-clause 44 of the Land Acquisition Act and it represented only 7.8 per cent of the entire private lands.	2021 2022 2023	Maximum effort should be taken to achieve intended targets of the Project within the time frame and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.19 of 2018.	Taking steps to monitor progress continuously	Divisional Secretariats have been informed to carry out the possession of ownership immediately.
(b) The laboratory equipment and furnishings shall revert to the contractor at the end of the contract as per special condition 128 of the contract. However, the Project had paid a sum of Rs.06 million as a lump sum for field laboratory equipment as at 31 December 2023 in relation to the Reconstruction of Bridge No. 4/2 in	2023	The special conditions of the contract should be carefully reviewed before enforcement. Special attention should be drawn by TEC and PC when reviewing the bidding documents to secure the employer rights	Action had not been taken.	The recommendations had not been implemented.

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contractors and overrun
the project cost.

3.4 Inclusive Connectivity and Development Project

The International Bank for Reconstruction and Development had agreed to provide a loan of Rs. 101,499.6 million under loan agreements Nos. IBRD 9290-LK for the Inclusive Connectivity and Development Project initiated in 2021 and the contribution of the government of Sri Lanka for this was Rs.300 million. The project period was scheduled to be ended on 31 October 2026.

Some important information about the financial position of the project for the years 2022 and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the project for those 2 years.

Year		2022	2023
		Rs. million	Rs. million
Total expenditure for the			
year	Government	48	43
	Funds	4,654	9,046
	Foreign Funds		
Total Assets		7,473	16,878
Total Liabilities		467	1,091
Total Fund			
	Through Foreign Loans	5,974	16,093
	Through Domestic Funds	48	91

In addition to the factors that affected to the qualified audit opinion, several important audit observations that were raised from the audit reports submitted in the last 2 years regarding the project were as follows.

Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a) The initial project period was 05 years and out of the targeted road length of 1096.8 km in the first two years of the project, only 251.18 km of road had been completed by 31 December 2023.	2022 2023	Maximum effort should be taken to achieve intended targets of the Project within the time frame.	Delays in identifying roads and procurements were further observed.	The recommendations had not been implemented.
(b) As per the Project Appraisal Document, a sum of US\$ 05 million had been allocated to the improving institutional and policy framework of the road sector under Sub-Component 1.2. This Sub-Component aims to improve the overall management of the road sector to sustain and increase efficiencies and improve its ability to respond to evolving connectivity needs and challenges. However, although 02 years had passed since the project was commenced, this component had not been implemented.	2023	Maximum effort should be taken to achieve intended targets of the Project within the time frame.	Plans are being formulated.	The recommendations had not been implemented.
(c) As per the Cabinet Approval, it was recommended to prepare and establish a joint implementation mechanism along with	2022 2023	Maximum effort should be taken to achieve intended targets of the Project within the time frame.	Plans are being formulated.	The recommendations had not been implemented.

the Ministry of Agriculture to implement the Project. Initially, a sum of US\$ 50 million had been allocated to this Component and it was reduced to US\$ 15 million according to the restructuring paper dated 09 May 2023. However, in contrary to the recommendations stated in the above cabinet paper, this component had not been commenced even as at end of 2023.

3.5 Saudi Funded Road Network Development Project

The Saudi Fund for Development had agreed to provide a loan of Rs. 7,800 million under loan agreement No. 9/574 for the Saudi Funded Road Network Development Project initiated in 2013 and the contribution of the government of Sri Lanka for this was Rs.2,828 million. It was extended on 01 occasion during the project period and planned to be completed on 31 December 2023.

Some important information about the financial position of the project for the years 2021, 2022, and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the project for those 3 years.

Year		2021	2022	2023
		Rs. million	Rs. million	Rs. million
Total expenditure for the				
year	Government	43	4	82
	Funds	480	113	211
	Foreign Funds			
Total Assets		8,703	8,862	19,667
Total Liabilities		131	192	74
Total Fund				
	Through Foreign Loans	7,698	8,145	18,985
	Through Domestic Funds	465	470	552

In addition to the factors that affected to the qualified audit opinion, several important audit observations that were raised from the audit reports submitted in the last 3 years regarding the project were as follows.

	Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a)	The number of land plots expected to be acquired by the project was 1,370 and a sum of Rs. 195.98 million had been paid as compensation for 1,308 plots of land and a sum of Rs. 56.22 million as delay interest as at 31 December 2023. However, the number of land plots registered under the Road Development Authority as per Sub-section 44 of the Land Acquisition Act was only 78 as at 31 December 2023.	2023	Maximum effort should be taken to achieve intended targets of the Project within the time frame and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.18 of 2018.	Informed to the Divisional Secretariats to expedite acquisitions	Action had been taken to inform the Divisional Secretariats.
(b)	The separate pay items had been made in the Bill of Quantities on road rehabilitation works by allowing contractors to quote the cost of providing performance guarantees, contrary to the provisions made under the sub clause 4.2 of the General Condition of the Contract and a	2023	The conditions of the contract should be carefully reviewed and written instructions should be issued in the review carried out in accordance with the provisions of Section 38(1)(c) of the National Audit Act No.18 of 2018.	It has been decided to remove these payment items in the future.	Steps will be taken to implement the recommendations in the future.

sum of Rs.0.79 million had been paid additionally to 03 contractors to reimburse the cost of performance security bonds obtained by the contractors.

3.6 Badulla - Chenkaladi Road Improvement Project

OPEC Fund for International Development had agreed to provide a loan of Rs. 7,800 million under Loan Agreement No. 1661 P and Saudi Fund for Development had agreed to provide a loan of Rs. 7,800 million under loan agreement No. 10/639 for the Badulla-Chenkaladi Road Improvement Project initiated in 2017 and the contribution of the government of Sri Lanka for this was Rs.2,600 million. It was extended on 01 occasion during the project period and planned to be completed on 31 December 2025.

Some important information about the financial position of the project for the years 2021, 2022, and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the project for those 3 years.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure for the			
year Government	429	78	392
Funds	3,859	1,085	1,791
Foreign Funds			
Total Assets	16,260	17,764	19,520
Total Liabilities	1,192	1,533	831
Total Fund			
Through Foreign Loans	12,178	13,253	15,322
Through Domestic Funds	2,881	2,959	3,350

In addition to the factors that affected to the qualified audit opinion, several important audit observations that were raised from the audit reports submitted in the last 3 years regarding the project were as follows.

Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a) The project had acquired 5,458 plots of land. Out of this, compensation should be paid for 2972 plots of lands and out of these, Rs.540.67 million was paid as compensation for 2,177 plots of land and Rs.10.9 million as delay interest for 326 plots of land. However, 749 plots of land only had been handed over to the Road Development Authority as at 31 December 2023 as per Sub-section 44 of the Land Acquisition Act.	2022	Maximum effort should be taken to complete land acquisition to avoid additional costs.	It was reported that the Divisional Secretariats had been informed.	Land acquisitions had not been completed.
(b) The contract for the rehabilitation and improvement of the Lunugala to Bibila highway was awarded on 12 June 2017 at a cost of Rs. 2,006.43 million with a contract period of 30 months. The contract was terminated on 29 June 2021 due to the poor performance of the contractor and inability to complete the contract within the				

agreed timeframe and at that time, its physical progress was 60.32 percent. The following observations are made in this regard.

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| <p>(i) Although the Road Development Authority had sought the opinion of the Attorney General's Department regarding the termination of the contract with the consent of both the contractor and the employer, there were no provisions regarding termination by mutual consent in accordance with the provisions of Section 15 of the General Conditions of the Contract. Accordingly, the Road Development Authority had not taken steps to terminate the contract in accordance with the condition of the contract and in the opinion of the Attorney General.</p> | <p>2022</p> | <p>Adhere to the conditions of the contract</p> | <p>Steps had not been taken to comply with the conditions.</p> | <p>The contract had not been terminated in accordance with the conditions of the contract.</p> |
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| <p>(ii) According to the 2022 Attorney General's letter dated 17 November 2022, it was clearly stated that the failure to complete the work was due to the fault of the contractor.</p> <p>Although the engineer had accepted the partially completed work on 12 June 2021, the project had not taken steps to terminate the contract in accordance with General Conditions 15 of the contract during the validity period of the performance security before 31 July 2022. Therefore, the Road Development Authority had lost the opportunity to minimize the losses by acting on the conditions of the contract due to this delay.</p> | <p>Adhere to the conditions of the contract</p> | <p>Steps had not been taken to comply with the conditions.</p> | <p>The contract had not been terminated in accordance with the conditions of the contract.</p> |
| <p>(iii) The above 2022 package was re-bid as two packages and awarded as two</p> | <p>Adhere to the procurement conditions</p> | <p>Non-compliance with procurement conditions</p> | <p>The recommendation s had not been implemented.</p> |

contracts for a value of Rs. 2,919.56 million. The relevant procurement had been approved by the Ministry Procurement Committee. Accordingly, contrary to Section 4.4.2 of the Procurement Manual, the procurements were referred to the Ministry Procurement Committee when the contract was re-awarded without the approval of the Cabinet Appointed Procurement Committee that had approved the initial contract.

3.7 New Bridge Construction Project over the Kelani River

New Bridge Construction Project over the Kelani River had been commenced on 01 July 2014 and it was agreed to finance Rs.46,755 million by the Japan International Cooperation Agency under the loan agreement No. SL – P 111 and the contribution of Government of Sri Lanka was Rs.8,558 million. The Project had been extended two times and scheduled to complete on 25 October 2021.

Some important information on financial position of the Project for the year 2021 and 2022 are given below and Auditor General had been granted unqualified audit opinion for the year 2021 and qualified opinion for the year 2022.

Year	2021	2022
	Rs. Million	Rs. Million
Total Expenditure for the Year		
Through Government funds	129	84
Through Foreign fund	10,066	1,392
Total Assets	57,777	93,361
Total Liability	1,203	3,675
Total Funds		
Through Foreign fund	54,003	87,036
Through Government funds	2,124	2,209

Some important Audit observations derived from audit reports of last two years other than matters considered for qualified audit opinions are given below.

Audit Observation	Year of the report	Recommendation of the Auditor General	Actions taken by the Entity	Progress of implementing the recommendation as of the date of the report
(a) Before the commencement of the construction work, a land area of 12.9 hectares consisting of 968 plots of land belonging to various parties had been acquired for the Project by incurring a cost of Rs. 1,135 million. But, action had not been taken even by 06 June 2023 to transfer the lands to the Road Development Authority according to section 44 of the Land Acquisition Act.	2022	Action should be taken to expedite the Land Acquisition Process.	Majority of the 968 plots used for construction works were state lands encroached/occupied by the unauthorized persons. Therefore Section 44 of the Land Acquisition Act need not to be published in respect of those state lands. In respect of the other lands the registration process under Section 44 is ongoing.	According to Section 44 of the Act, certificates had been obtained only for 55 land plots.
(ဧ) Even though the contractors had not been attended to rectify 16 defects which were noticed in the year 2022/2023, the project had not taken any action in this regard even up to 30 June 2023.	2022	Action should be taken to complete the construction work within the scheduled period of time.	All the defects will be rectified before the expiry of the Defects Notification Period in November 2023.	The audit recommendation has not been implemented

3.8. Reconstruction of 25 Bridges Project

Reconstruction of 25 Bridges Project had been commenced on 07 September 2015 and it was agreed to finance Rs.4,632 million by the Kuwait Fund for Arab Economic Development under the loan agreement No. 886 and the contribution of Government of Sri Lanka was Rs.460 million. The Project had been extended two times and scheduled to complete on 31 December 2023.

Some important information on financial position of the Project for the year 2021, 2022 and 2023 are given below and Auditor General had been granted unqualified audit opinion for the year 2021 and qualified opinion for the years 2022 and 2023.

Year	2021	2022	2023
	Rs.	Rs.	Rs. Million
	Million	Million	
Total Expenditure for the Year			
Through Government funds	71	30	
Through Foreign fund	1386	633	
Total Assets	4,191	4,795	4,800
Total Liability	453	393	389
Total Funds			
Through Foreign fund	3,494	4,128	4,128
Through Government funds	242	272	281

Some important Audit observations derived from audit reports of last 03 years other than matters considered for qualified audit opinions are given below.

Audit Observation	Year of the report	Recommendation of the Auditor General	Actions taken by the Entity	Progress of implementing the recommendation as of the date of the report
(a) The Secretary to the Line Ministry shall ensure that the Project Steering Committee should be meeting at least once in two months. However, only one Steering Committee meeting had been held during the year under review and only eight Steering Committee meetings were held from 2019 to 2023.	2022, 2023	Effective internal control systems for the financial control exists in the Project and carry out periodic reviews to monitor the effectiveness of such system as per the Section 38(c) of National Audit Act No.19 of 2018, and give written instruction accordingly.	Agreed.	Action had not been taken to implement the audit recommendation.

3.9. Kandy Multimodal Transport Terminal Development Project

Kandy Multimodal Transport Terminal Development Project had been commenced on 06 May 2021 and it was agreed to finance Rs.13,762 million by the World Bank under the loan agreement No. 6623 LK (Concessionary Loan) and No. 6624-LK (Unconcessionary Loan) and the contribution of Government of Sri Lanka was Rs.1,642 million. The Project had been scheduled to complete on 31 May 2025.

Some important information on financial position of the Project for the year 2022 and 2023 are given below and Auditor General had been granted unqualified audit opinion for the year 2022 and qualified opinion for the year 2023.

Year	2022	2023
	RS. Million	RS. Million
Total Expenditure for the Year		
Through Government funds	17.49	128.57
Through Foreign fund	168	-
Total Assets	187	301
Total Liability	0.7	3.1
Total Funds		
Through Foreign fund	169.47	153.05
Through Government funds	17.09	145.67

Some important audit observations derived from audit reports of last 03 years other than matters considered for qualified audit opinions are given below.

Audit Observation	Year of the report	Recommendation of the Auditor General	Actions taken by the Entity	Progress of implementing the recommendation as of the date of the report
(a) The PMU had taken 3 years for preliminary work of KMTT and entered in to an agreement with Maga Engineering (pvt) limited to construct the KMTT within 3 years commencing from 18 March 2024. It was observed that the project could not be able to complete its works and nine storied building before 2026.	2023	Chief accounting officer should instruct PMU to complete the project within agreed period of time.	The contract is being awarded to a private limited company and the completion date is 18 March, 2027. Since having difficulty in finding funds for the nine storied building, the scope was changed to seven storied building, and currently GOSL funds are being allocated and Procurement process is in progress for awarding the tender.	Procurement process is being progress.
(b) According to the Section 04 of the National Budget Circular No.3/2018 dated on 16 July 2018, the Government agency should be obtained the approval from General treasury to obtain vehicles on operational lease method. However, the PMU had been obtained 03 vehicles on operational lease	2023	Disciplinary action should be taken against the responsible officers who violate the instruction of National Budget Circular.	The vehicles were obtained on operational lease method without obtaining the approval of the General Treasury as this is a World Bank funded project. The period of lease contracts of the above vehicles have already been completed.	Action had not been taken to implement the audit recommendation.

method (Use and Return) without taking approvals from the General Treasury.

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| (c) | <p>From the year 2019, 2022 Rs.712 million had 2023 been paid to 825 personnel as compensation for required land for the construction of the multi-model terminal. Out of that amount Rs.35.06 million had been paid as business losses to 17 persons for three years from 2019. Due to delaying the construction work, the project had to pay a sum of Rs. 22.2 million for same persons in 2022 and 2023. Moreover, this payment will be rollover until the completion of construction works under this project.</p> | <p>The project director should take action to complete the project within the agreed contract period.</p> | <p>Agreed.</p> <p>The payments are continuing due to this project is ongoing.</p> |
| (d) | <p>Not later than six months from the loan effective date, the project should be prepared a Project Operational Manual.</p> | <p>2023</p> <p>The chief accounting officer should instruct the PMU to prepare the Project Operation Manual as per the loan agreement.</p> | <p>Contract was awarded recently and the Project Operation Manual is being prepared</p> <p>Action had not been taken to implement the audit recommendation</p> |

3.10. Transport Project Preparatory Facility Project

Transport Project Preparatory Facility Project had been commenced on 28 January 2017 and it was agreed to finance Rs.3,655.43 million by the Asian Development Bank under the loan agreement No. 3425 SRI (SF) and the contribution of Government of Sri Lanka was Rs.490.98 million. The Project had been completed on 30 June 2023.

Some important information on financial position of the Project for the year 2021, 2022 and 2023 are given below and Auditor General had been granted unqualified audit opinion for the year 2021 and 2023 and qualified opinion for the year 2022.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure for the Year			
Through Government funds	0.006	-	0.09
Through Foreign fund	-	573	10.3
Total Assets	471	1,095	916
Total Liability	-	-	-
Total Funds			
Through Foreign fund	422.65	995.84	824.88
Through Government funds	47.52	47.53	47.62

Some important audit observations derived from audit reports of last 03 years other than matters considered for qualified audit opinions are given below.

Audit Observation	Year of the report	Recommendation of the Auditor General	Actions taken by the Entity	Progress of implementing the recommendation as of the date of the report
(a) According to the Mid - term Review Mission, carried out by the ADB in February 2022, the mission expected to keep up the loan until the Government was ready to provide details of new assignments for the use of remained concessional loan balance. Even though, the Ministry of Highway and Road Development authority had agreed to do so, action had not been taken to submit a proposal for new assignment until end of the project. Therefore, the concessional loan balance of USD \$ 7.45 million was unutilized and refunded at the closing of PMU.	2023	Action should be taken to obtained foreign loans for actual requirement of the road sector and complete the identified work within the loan amount.	A project proposal was submitted to the Department of National Planning (NPD) for their approval and it was approved by NPD on 20 January 2022. However, new assignment and proposals were not implemented according to the National Budget Circular No. 03/2022.	Action had not been taken to implement the audit recommendation
(b) A sum of USD \$ 10 million had been provided for Road component by the ADB. However, only USD \$ 2.55 million had been utilized by the PMU until the	2021, 2022 2023	Action should be taken to utilized loan funds efficiently.	Road component of the TPPF Project originally consist of expressway development Project and	Action had not been taken to implement the audit recommendation.

completion of the project.

Design of SASEC Port Elevated Highway. However, preliminary and detailed engineering design of Expressway Development Project was not identified as a matter of high priority. Hence, the main component with the value of USD 6.9 million out of USD 10 million was not implemented.

3.11 Project of Design and Construction of Kohuwala and Gatambe Flyovers

Project of Design and Construction of Kohuwala and Gatambe Flyovers had been commenced on 16 August 2021 and it was agreed to finance Rs.10,192 million by the Hungarian fund under the loan agreement No. HS001121000 and the contribution of Government of Sri Lanka was Rs.975 million. The Project had been scheduled to complete on 15 February 2024.

Some important information on financial position of the Project for the year 2021, 2022 and 2023 are given below and Auditor General had been granted qualified audit opinion for same years.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure for the Year			
Through Government funds	359	85	406
Through Foreign fund	2,636	774	-
Total Assets	3,493	6,518	7,177
Total Liability	498	1,033	403
Total Funds			
Through Foreign fund	2,636	5,040	5,922
Through Government funds	359	444	850

Some important Audit observations derived from audit reports of last 03 years other than matters considered for audit opinions are given below.

Audit Observation	Year of the report	Recommendation of the Auditor General	Actions taken by the Entity	Progress of implementing the recommendation as of the date of the report
(a) According to the preliminary appraisal conducted in 2018 by the line ministry it had been identified saving the cost of Rs.4.26 million per day to the national economy by constructing a flyover at Kohuwala and Gatambe. However, it was observed that delaying the construction works would be caused to delay the outcome of the project.	2022	Action should be taken to expedite the project activities for achieve project outcome.	Due to non-payments of IPCs Project completion could not be achieved as planned.	Actions had not been taken.
(b) Although, 07 Interim Payment Claims (IPC) of Rs.1628.94 million had to be paid to the contractor during the year under review, and it had been submitted to the foreign donor agency, the agency had not paid that amount until the end of the year under review. Therefore, it was a risk to pay delay charges as per the General condition of the contract at the	2022	Action should be taken to expedite the loan disbursement process without incurring additional cost.	Due to IMF Debt re-structuring, Hungarian Exim Bank stopped disbursements. All outstanding payments from April 2022 not yet paid.	Loan Disbursement suspension continued up to Now.

end of the year under review.

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| (c) | A sum of Rs.14.65 million had been obtained from another two projects and paid compensation and interest for the land acquisition of this project at the end of the year under review. However, written approvals from the line ministry and the treasury to transfer those funds had not been presented to the audit as at 31 December 2022. Moreover, action had not been taken to settle the amount for other projects until the end of the year under review. | 2022 | Prompt action should be taken to settle payables. | At the initial stage of newly commenced project, the bank account was not opened, and the initial expenses were made from the on-going projects. Therefore, once sufficient imprest under GOSL component was received payables will be settled. | Action had not been taken to settle the payables balance of Rs. 14.09 million up to Now. |
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3.12. Exim Bank of China (Hunan Branch) funded widening and improvement of Roads and Bridges in Central and Uva Provinces Project

Exim Bank of China (Hunan Branch) funded widening and improvement of Roads and Bridges in Central and Uva Provinces Project had been commenced on 29 November 2018 and it was agreed to finance Rs.20,300 million by the Exim Bank of China under the loan agreement No. EXIM BANK – HUNAN - 015 and the contribution of Government of Sri Lanka was Rs.2,370 million. The Project had been extended one times and scheduled to complete on 28 November 2022.

Some important information on financial position of the Project for the year 2021, 2022 and 2023 are given below and Auditor General had been granted qualified audit opinion for same years.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure for the Year	97	76	30
Through Government funds	6,789	-	-
Through Foreign fund			
Total Assets	17,624	18,040	32,559
Total Liability	2,478	1,648	1,647
Total Funds			
Through Foreign fund	12,900	14,070	28,559
Through Government funds	2,246	2,322	2,352

Some important Audit observations derived from audit reports of last three years other than matters considered for audit opinions are given below.

Audit Observation	Year of the report	Recommendation of the Auditor General	Actions taken by the Entity	Progress of implementing the recommendation as of the date of the report
(a) According to section No. 12.1(10) of the loan agreement, the PMU should submit a project completion summary report to the donor within six months from the date of project completion. However, actions had not been taken to submit the report until the date of this report.	2023	Action should be taken to submit the Completion Summary report to the donor as per the loan agreement.	As per the loan agreement, PMU should submit the Project completion report to the Lender (Donor) on the request made by the Lender. However, no such request has been still received.	Action had not been taken to implement the audit recommendation.
(b) According to the loan agreement, the project period was scheduled to be completed on 28 September 2021, however, the project period had been extended up to 28 September 2022. The PMU could not complete the contract within the extended period and the Ministry of Transport and Highways had requested from the Department of External Resources to extend the project period until 31	2022 2023	Action should be taken to obtain approval from ERD and Donor.	Agreed	Action had not been taken to implement the audit recommendation.

December 2023.

However, the approvals were not received until the date of this report.

- (c) According to the 2023 Chief Accounting Officer should take Considering the Action had not Report submitted by the Committee Appointed to Review Project Offices and Project Management Units" the project should be closed by 31 January 2023 and terminate the service of the contract staff by 31 March 2023. However, the PMU had not been closed due date and a sum of Rs. 9.06 million paid for salary and maintenance of the office of PMU until 30 September 2023 without proper approvals.
- 2023 Chief Accounting Officer should take action to windup the project and close the Project management Unit.
- Considering the practical issues, instructions were given to function the PMU until 30.09.2023. Accordingly, Project Management Unit has been closed by 30.09.2023 and functioned under the Director General of the RDA.
- Action had not been taken to implement the audit recommendation.

3.13. Landslide Disaster Protection Project

The Landslide Disaster Protection Project had been commenced on 05 July 2013 and it was agreed to finance Rs.12,870.45 million by the Japan International Cooperation Agency as per the loan agreement No.SL-P 109 and the contribution of Government of Sri Lanka was Rs.3,331 million. The Project had been extended two times and scheduled to complete on 05 July 2020.

Some important information on financial position of the Project for the year 2021 and 2022 are given below and Auditor General had been granted qualified audit opinion for same years.

	2021	2022
Year		
	Rs. Million	Rs. Million
Total Expenditure for the Year		
Through Government funds	130	34
Through Foreign fund	-	-
Total Assets	11,224	11,333
Total Liability	1.7	75.8
Total Funds		
Through Foreign fund	9,677	9,677
Through Government funds	1,545	1,580

Some important Audit observations derived from audit reports apart from matters considered for audit opinions of last 02 years are given below.

	Audit Observation	Year of the report	Recommendation of the Auditor General	Actions taken by the Entity	Progress of implementing the recommendation as of the date of the report
(a)	<p>The completion time of construction under Lot "A" and Lot "B" of this project had been delayed more than two years due to a lack of experience and a lack of understanding of safety measures by the local contractors and increasing the landslide countermeasures.</p> <p>Hence, the project had only used Japan Yen million 6,283 out of the total loan amount of Japan Yen million 7,619 within the loan period. Therefore, it was observed that the commitment charge paid for the unused loan balance was uneconomical when the completion of the loan period.</p>	2022	Loan should be utilized effectively	<p>The scope of this project was 16 landslide locations under Lot "A" and Lot "B". In addition to the completion of the 16 landslide locations, additional 07 landslide locations were completed within the time frame saving the loan amount by more than Yen 1000 Million Yen.</p>	<p>The Audit recommendation had not been implemented and the Project had been winded up in 2022.</p>
(b)	<p>Even though, an Early Warning System (EWS) had been established by expending Rs.30 million under this project to identify landslide notification</p>	2022	Action should be taken to utilize Early Warning System (EWS) for the purpose of project.	<p>According to the Loan Agreement, the PMU of this Project should be established with the NBRO and RDA jointly. So, the Early</p>	<p>EWS System had not been used by the RDA.</p>

in advance. However, that system had not been used by the Road Development Authority at the end of the year under review. Therefore, the cost incurred for this system had become uneconomical.

Warning System is effectively functioning and gets the maximum benefit by the NBRO because it is used by the NBRO according to the Loan Agreement.

3.14 Colombo National Highway Rehabilitation and Improvement Project (OFID II)

The Colombo National Highway Rehabilitation and Improvement Project (OFID II), which commenced in 2013, was agreed upon under Loan Agreement No.1511 PB with the OPEC Fund for International Development (OFID), to provide a loan amounting to Rs.50 million. The Government of Sri Lanka contributed Rs.36.25 million towards this Project. The project period had been extended on three occasions and is planned to be completed by 31 May 2026.

Some important information regarding the financial status of the Project for the years 2021, 2022 and 2023 for these three years, qualified Audit opinions had been issued on the Financial Statements of the Project by the Auditor Generals.

Year	2021	2022	2023
	Rs. million	Rs. Million	Rs. million
Total expenditure for the year			
Government Funds	2,330.87	119.67	721
Foreign Funds	904.74	585.67	2,012.59
Total Assets	17,852.53	19,585.40	26,934.57
Total Liabilities	1,785.88	2,266.04	1,238.97
Total Funds			
Through Foreign Loans	6,086.48	6,694.32	13,057.96
Through Domestic Funds	9,027.07	9,146.74	11,159.34

In addition to the reasons for issuing the qualified audit opinion, several significant audit observations related to the Project for the past 03 years, as highlighted in the audit reports, are as follows.

Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a) Court cases against the Project had not been disclosed in the financial statements as per Sri Lanka Public Sector Accounting standard No 08,	2023 2022	The accountant should assure complying with Sri Lanka Public Sector Accounting Standards before sign the Financial Statements.	Though, it had been agreed in 2022, that the pending court cases would be disclosed in the financial statements of 2023, it had not been done.	The recommendation had not been implemented.
(b) As per the last IPC at the end of 31 December 2023, the Project had paid a sum of Rs.144.4 million in excess of the BOQ without proper approval. It was observed that cost of preliminary and general items had been overstated by such amount which will lead to additional cost to the contract.	2023	The work program should be revised in a timely manner, obtaining the necessary approvals from the Project Management Unit. Additionally, measures should be implemented to avoid unnecessary expenses.	Action had not been taken to prevent the issue.	The recommendation had not been implemented.
(c) Although the Engineer had prepared the Engineering estimate with proper measurements according to the road plan, but a variation of Rs.208 million had been paid for the construction of the Orugodawatta –	2023	The work program should be revised in a timely manner, obtaining the necessary approvals from the Project Management Unit. Additionally, measures should be implemented to avoid unnecessary	Action had not been taken to prevent the issue.	The recommendation had not been implemented

Ambathale to the contractor. But variation had not been approved until 31 March 2024, and this caused issues during the Audit.

expenses.

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| <p>(d) The Construction of Phase II of the Orugodawatta – Ambathale road rehabilitation Project started on 21 October 2019, with a cost of Rs.1,943 million and was initially scheduled to be completed by 20 October 2021. However, on 04 occasions, the contract period had been extended, and the contractor submitted an Interim Claim of Rs.55.25 million. According to the terms of the agreement, Clause 8.7 delay charges had not been charged to the contractor for delays in Phase I and II amounting to Rs.347 million for delays of 125 days and 113 days.</p> | <p>The work program should be revised in a timely manner, obtaining the necessary approvals from the Project Management Unit. Additionally, measures should be implemented to avoid unnecessary expenses.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented</p> |
| <p>(e) According to the information received it was scheduled to be acquired 5,710 plots of land including 992 plots of crown land for</p> | <p>The land acquisition process should be carried out with a proper action plan.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented</p> |

the Project activities and interest of Rs.2,658 million had been paid by the Project due to delays in settlement of the compensations as at 31 December 2023. However, only 05 plots of land had been registered under section 44 of the Land Acquisition Act as at 31 December 2023. Further it may be adversely affected to the performance of the Project.

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| <p>(f) The total length of 2022 Piliyandala 2023 Maharagama road is 5.8 km and the improvement is programmed to three road sections, The Section one having 1.8 km road length which was awarded on 07 December 2023. However, works have been temporary suspended due to a court case filed by a bidder against the contract awarding. It was badly affect to the project performance.</p> | <p>Project Management Unit should take necessary action to mitigate delay and cost.</p> | <p>Actions had been taken to mitigate the delay.</p> | <p>Project activities had been started from Juky 2024 and a decision had been taken to charge the delay charges from the bidder</p> |
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3.15 Port Access Elevated Highway Project

The Asian Development Bank has agreed to provide a loan of Rs.46,381.72 million under Loan Agreement No.3716 for the Port Access Elevated Highway Project, which started in 2019, the contribution of the Government of Sri Lanka for this Project was Rs.9,500.76 million. The Project is planned to be completed by 30 June 2025.

Some important information regarding the Financial status of the Project for the years 2021, 2022 and 2023 is provided below. In this regard, a qualified audit opinion had been issued for the year 2021, while unqualified audit opinions had been issued for the years 2022 and 2023 by the Auditor General.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure for the year			
Government Funds	495.11	20.67	7.64
Foreign Funds	10,439.94	18,006.79	20,023.29
Total Assets	12,467.30	47,815.11	63,194.27
Total Liabilities	1,468.51	4,013.11	3,860.29
Total Funds			
I Through Foreign Loans	10,498.6	40,264.26	55,662.36
n Through Domestic Funds	495.05	515.73	523.37

In addition to the reasons for issued those audit opinions, several significant audit observations related to the Project for the past 03 years, as highlighted in the audit reports, are as follows.

	Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a)	Due to delay in the completion and handing over the Maritime Facilitation	2022 and 2023	The necessary approvals should be obtained and steps should be taken to	Action had not been taken to prevent the issue.	The initial cost had increased by 34 percent while the construction

Center building to the Sri Lanka Ports Authority, the Project had incurred a total sum of Rs.221.53 million as at 31 December 2023 under 03 variation orders for mobilizing the existing staff of the Sri Lanka Port Authority. Further, it was observed that the above payments had exceeded the approved variation limit by Rs.11.07 million	expedite construction activities in order to minimize additional costs	progress reached 44.5 percent	had 44.5
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| <p>(b) It was observed that 21 non-conformance reports raised during 2021,2022 and 2023 for gradient temperature exceeding, ABC top level change, cracks on top and side surfaces, low strength of bearing plinths, improper embankment slope protection, misalignment of bottom ducts, etc. those defects had not been rectified as at 31 December 2023</p> | <p>Prompt action should be taken to correct the defects mentioned in the non – compliance reports.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented by the audit.</p> |
| <p>(c) As per the Terms of Reference (TOR) of the consulting service for construction supervision for the Port Access Elevated Highway, the</p> | | | |

Consultant's international and national staff includes 55 cadre with key positions. However 02 individual consultants had been appointed by the Project additionally claiming the requirement to advice the project Director of RDA in fulfilling the obligations of RDA and safeguarding the interests of RDA as per the Employer. However, scope of services of those individual consultants does not specify such responsibility but included in the services of the main construction supervision consultant. Moreover the Project had incurred a sum of Rs. 18.5 million in this regard as at 31 December 2023 and this was a problematic issue in audit.

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| <p>(d) The concurrence of 2022 the Asian 2023 Development Bank had been requested by the Project on 02 February 2023 to cancel the implementation of electronic toll collection system</p> | <p>Steps should be taken to implement Project activities efficiently.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented by the audit.</p> |
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(ETC) which had an estimated value of USD 28.4 million due to insufficiency of funds arisen from price escalation and the ADB has given concurrence for cancellation.

However, a sum of Rs.14.79 million had been incurred for consulting services for ETC system during the year under review and the total expenditure in this regard was Rs.176.48 million as at 31 December 2023.

Nevertheless, arrangements had not been done to implement an ETC system based on an alternative procedure as specified by the management during the previous year

3.16 OPEC Funded Rehabilitation of the A017 Road Corridor Project (Rakwana - Suriyakanda)

The A-017 Road Rehabilitation and improvement Project, initiated in 2019, was agreed upon under loan agreement number 13652P with the OPEC fund for International Development providing a loan amount of Rs.5,497.9 million. The Government of Sri Lanka contributed was Rs.1,449.3 million to the project. The project period was extended once during its implementation and it planned for completion on 25 December 2025.

Some important information regarding the Financial status of the project for years 2021, 2022 and 2023 is provided below. In this regard for the year 2021, unqualified opinion had been issued on the Projects Financial Statements, while for the years 2022 and 2023 a qualified opinion had been issued by the Auditor General.

Year	2021	2022	2023
	Rs. million	Rs. Million	Rs. million
Total expenditure for the year			
Government Funds	59.00	13.21	52.27
Foreign Funds	-	320.47	2,529.19
Total Assets	37.99	466.10	3,058.28
Total Liabilities	32.02	132.40	444.34
Total Funds			
I Through Foreign Loans	-	320.47	2,561.66
n Through Domestic Funds	5.9	13.21	52.27

In addition to the reasons for issued those audit opinions several significant audit observations related to the Project for the past 03 years, as highlighted in the audit reports, are as follows.

Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a) As per the standard specification for construction and maintenance of roads and bridges published by ICTAD – 2009 pay unit of preparation of base of foundation and dewatering is provision sum. However, in contrary to that, engineer estimates of all packages had been prepared as lump sum, and a sum of Rs.12.51 million had been paid by the Project without proper measurement.	2023	Before approving the cost estimate it should be ensured that the Project complies with the ICTAD conditions.	Action had not been taken to prevent the issue.	The recommendation had not been implemented.
(b) As per the minutes of the Ministry Procurement Committee meeting held on 20 April 2021, chaired by the Secretary to the Ministry of Highways, the rehabilitation of Suriyakanda – Rakwana Project (18 Km) had been split into 03	2023	Before approving the contract, the Project Director should obtain the necessary approval from the relevant procurement committee.	Action had not been taken to prevent the issue.	The recommendation had not been implemented.

packages
comprising 06 Km
for each contract
package on
employer's
requirement.

Accordingly,
package A and B
had been awarded
under Ministry
Procurement
Committee whilst
package C awarded
under Standing
Cabinet appointed
Procurement
Committee.

However, such
decision to divide
the Project into 03
packages had
increased the
preliminary
expenses,
supervision
charges, Project
overhead costs of
the Project.

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| <p>(c) According to the 2023
Procurement time
schedule, Procuring
entity had been
planned to award
the Contract by 02
January 2022,
however contract
had not been
awarded as per the
procurement time
schedule which will
lead to low progress
of the Construction</p> | <p>According to the
Project Directors
response, the
handing over date
should not be
extended.
Therefore, no
allowance should
be made for
extending the time.</p> | <p>Action had not
been taken to
prevent the
issue. The
recommendation
had not been
implemented</p> |
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| <p>(d) It was scheduled to acquire 1515 plots of land for the construction of the Project. The Project had only issued Section 38(a) for 789 plots of land. However, compensation had not been assessed for any plots of land under the Section 17 up to 31 December 2023. Poor supervision of land acquisition process was mainly</p> | <p>2023
2022</p> | <p>The land acquisition process should be carried out with a proper action plan.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented.</p> |
| <p>(e) The Procurement plan was not approved by the Secretary of the line Ministry, nor was it approved by the foreign fund – implementing agency. Additionally a procurement plan was not prepared in conjunction with the annual action plan</p> | <p>2023</p> | <p>The Project Management unit should take necessary actions to prepare the Procurement plan and obtain approval from the Ministry.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented.</p> |

3.17. Transport Connectivity and Asset Management Project

The World Bank agreed to provide a loan of Rs. 2,086 million under loan agreement number 5788-LK for the Transport Connectivity and Asset Management Project, which was initiated in 2017. The Government of Sri Lanka contributed Rs. 240 million to the project. The project was completed on 30 September 2023.

The project activities are carried out under 02 components institutional strengthening for asset management and capacity building. The total estimated cost of the project was USD 125 million, which is equivalent to Rs. 18,125 million, with a financing arrangement of approximately Rs. 90.5 million. However, according to the Cabinet decision dated 15 August 2018, bearing reference number 18/1682/805/051, the primary scope of the project had been changed. As a result, Rs. 14,500 million, equivalent to USD 100 million from the initial loan funding, was removed from the project. This amount was allocated to the provincial councils, local government, and the Ministry of sport. for the improvement of provincial roads. From the remaining balance, only Rs. 2,320 million, equivalent to US Dollar 16 million, was allocated to continue the project activities, while the remaining amount of Rs. 1,232.5 million, equivalent to USD 8.5 million, was transferred to the Road Maintenance Fund. Finally, an amount of Rs. 2,086 million, equivalent to USD 7 million, was allocated, and the project had been completed on 30 September 2023.

Some important information regarding the financial status of the project for the years 2021, 2022, and 2023 is provided below. For the years 2021 and 2022, unqualified audit opinion issued on the Projects Financial Statements. However, for the year 2023, a qualified opinion had been provided by the Auditor General.

Year	2021	2022	2023
	Rs. million	Rs. Million	Rs. million
Total expenditure for the year			
Government Funds	19.03	13.5	8.79
Foreign Funds	128.78	577.63	1,171.54
Total Assets	597.22	1,654.93	2,469.97
Total Liabilities	3.91	52.56	221.84
Total Funds			
Through Foreign Loans	457.04	1,240.85	2,089.56
Through Domestic Funds	136.27	149.77	158.56

In addition to the reasons for issued qualified audit opinions, several significant audit observations related to the Project for the past 03 years, as highlighted in the audit reports, are as follows.

Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendation as at the date of the report
(a) Due to the request made by the Government of Sri Lanka on 06 May 2020, for the allocation of USD 7 million for COVID-19, the total loan provisions for the project had been reduced to Rs. 1,305 million, equivalent to USD 9 million. Ultimately, an	2023 2022	Steps should be taken to expedite the work in accordance with the work plan.	Action had not been taken to prevent the issue.	The scope of the project was limited and operations had been completed on 30 September 2023. The accounts were winding up as at 31 March 2024.

amount of Rs. 2,086 million, equivalent to USD 7 million, was allocated, and the remaining funds, amounting to USD 2 million, were converted to support the ongoing economic crisis in the country. The project commenced its activities on 30 June 2016, and was restructured on 15 August 2018, and had been completed as 30 September 2023.

Furthermore, it was observed that due to the limitation of the loan fund, it had not been implemented the institutional and governance reform activities as planned

(b)	Liquidated damages amounting to Rs. 5 million had to be recovered from the payment for supply of aerial plat from truck had	2022 2023	Effective action should be taken to claim delay damages as per the conditions of contract	Other preventive actions had not been taken	Recommendations had not been implemented even by the winding up accounts as at 31 March 2024
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been released to supplier. Further, it was observed that, liquidated damages amounting to Rs. 5 million had been mentioned in the creditor control account and recorded as liability in the financial statement as at 31 December 2023. The releasing of liquidated damages was a problematic issue in audit.

3.18. Western Province Road Development Project (OFID III)

The Western Province Road Development Project, initiated in 2015, was agreed under loan agreement number 1662P with the OPEC Fund for International Development, providing a loan amount of Rs. 2,209.84 million. The Government of Sri Lanka contributed Rs. 1,022.66 million to the project. The project period was extended 03 times, and it is now planned for completion on 10 May 2026.

Some important information regarding the financial status of the project for the years 2021, 2022, and 2023 is provided below, qualified Audit opinions had been issued on the Financial Statements of the Project by the Auditor Generals.

Year	2021	2022	2023
	Rs. million	Rs. Million	Rs. Million
Total expenditure for the year			
Government Funds	242.83	12.15	313.91
Foreign Funds	379.48	508.21	492.96
Total Assets	4,666.78	5,121.24	7,749.59
Total Liabilities	696.19	530.79	655.19
Total Funds			
Through Foreign Loans	2,058.42	2,576.53	4,766.55
Through Domestic Funds	1,819.87	1,889.72	2,203.64

In addition to the reasons for issued qualified audit opinions, several significant audit observations related to the Project for the past three years, as highlighted in the audit reports, are as follows.

	Audit Observation	Reported Year	Auditor General's Recommendation	Preventive measures taken by the auditee	Current status of the recommendati on as at the date of the report
(a)	The rehabilitation works of 25.8 Km of the 04 national roads were expected to be carried out under 02 contract packages. Even though the Loan Agreement was signed on 26 June 2015, the rehabilitation works of 02 contract packages had been commenced after lapsed of 2½ years due to delay in the land acquisition process and the project cost had been overrun by Rs.645 million. The Project has already started the procurement process to reconstruct the Bridge No. 9/1 on Orugodawatta-Ambatale road which is not in the original scope of works with the balance allocation of the loan without completion of the balance works of the Kaduwela to Athurugiriya road.	2021 2022 2023	The Project Director should ensure that the completion of the primary scope of the project.	Action had not been taken to prevent the issue.	The recommendation had not been implemented.

Further, the rehabilitation works 1.25 km of Walgama-Athurugiriya road under contract package has been subsequently deleted from the scope of works of the Project due to issues in the land acquisition process.

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| (b) | <p>The Project had not been taken any action to recover two receivable balances regarding advertisement, survey work, landslide study, pavement design and environmental consultation expenses totaling to Rs.16.96 million over the last four years as at 31 December 2023.</p> | 2022
2023 | <p>Prompt action should be taken to settle the outstanding payments</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented.</p> |
| (c) | <p>The contractor for the rehabilitation works of 9.5 km of Kaduwela – Athurugiriya road had been commenced on 29 January 2018 at a cost of Rs.1,065 million and scheduled to be</p> | 2022
2023 | <p>Engineer should confirm the accuracy of the reasons and applicability of the price escalation as per conditions of contract before recommends time extension.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented.</p> |

completed on 28 July 2019. However, the period of contract had been extended by the project up to 29 August 2023 by granting of 841 days of time extension to the contractor. Further, it was observed that, the contractor had claimed Rs.311 million relating to cost of time extension of 841 days and project had approved that claim without considering contractor poor performance.

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| <p>(d) Due to the project's inability to identify the total scope of work related to the contract, For the Kaduwela-Athurugiriya road, variation orders had been issued, resulting in an increase in the variation cost, by 43 percent of the total project contract value, amounting to Rs. 453 million.</p> | <p>2022
2023</p> | <p>The PMU should adhere procurement procedures before approve the variation orders.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented.</p> |
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| (e) | <p>The consultancy agreement for the project, initially valued at Rs. 147.79 million on 08 March 2018, was revised to Rs. 299.36 million due to delays in construction activities. The project had paid Rs.1,515.59 million representing 102.57 percent of the total cost of the consultancy contract due to delay in the completion of the project. According to that the increase in project costs impacted by the contractor's poor performance.</p> | <p>The project director should ensure that the comply with defined scope.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented.</p> |
| (f) | <p>According to the information made available, it was scheduled to acquire 2,747 plots of land including 504 plots of land owned to the Government and the compensation amount of Rs.1,564 million had been paid under the Section 17 of the Land Acquisition Act. In addition, a sum of Rs.417 million had been paid as interest on delays in settlement</p> | <p>The land acquisition process should be carried out with a proper action plan.</p> | <p>Action had not been taken to prevent the issue.</p> | <p>The recommendation had not been implemented.</p> |

of compensation up to 31 December 2023. However, only 411 plots of land had been registered under section 44 of the land acquisition act as at 31 December 2023.

4. Public Transport Division

4.1 Colombo Suburban Railway Efficiency Improvement Project

It had been agreed to provide a loan of USD 125 million under the Asian Development Bank's Loan Agreement No. 3806 SRI for the Colombo Suburban Railway Efficiency Improvement Project, which was initiated in 2019 and the contribution of Government of Sri Lanka was Rs. 7,246 million. The project had been scheduled to be completed on 31 December 2024 .

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below and the Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2023 .

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total expenditure of the year			
Government Funds			
Foreign Funds			
Total Assets	3,363	6,954	15,803
Total Liabilities		1,164	1,240
	751		
Total Funds	2,612	5,790	14,563
From Foreign Debt			
From Domestic Funds			

In addition, several important audit observations arisen from the audit reports submitted for the last 3 years related to the Project were as follows:.

Major Deficiencies included in the Audit Report	Year of Report	Recommendation of the Auditor General	Preventive Actions Taken by the Audited Institution	Implementation Status of Recommendation as at the Date of Report
(a) The budgeted commitment charges made to the Project as at 31 December 2023 was USD 350,000 by the ADB and even though there is one more year remain for complete of the Project, the actual commitment charges was USD 788,399 as a result, the excess commitment charges was USD 438,399 equivalent to Rs.126 million.	2023	Disbursements planned according to the budget should be made in time to prevent the excess commitment charge	Estimated committed charges in project administration manual have been exceeded due to delay in occurrence of planned disbursement in time as a result of five incidents.	Commitment charges are being made furthermore, due to delays.
(b) According to the revised Project Administration Manual dated 28 April 2023, as a result of observing an additional cost of USD 15 million was required for the Project due to price variations and increase in other charges, four sub -projects with an estimated cost of USD 10 million, which were included in the initial scope of the Project,	2021, 2022, 2023	Scope changes should be made as per the Proper assessment and it should not be badly affect to the overall objectives of the project.	According to the requests made by the Railway Department the scope of the Project has been changed after discussion in the Project Steering Committee. It does not conflict with the objectives of the project	Although the construction of the School Lane Bridge has been proposed to be implemented under the Railway Department, has not yet been started.

had been decided not to be implemented.

- (c) Although special priority should be given for this School Lane to avoid traffic congestion between Dematagoda and Maradana railway stations, which was identified as the main cause of train delays in the feasibility study according to the feasibility study report conducted at the beginning of the project, it had been decided to stop this Sub-project in contrary to recommendation in that report. It was observed during the audit that since this project had not yet been commenced, it was decided not to implement it in order to cover the additional costs of the project.

Accordingly, it was not observed that the decision taken by the Project Sub-committee to change the scope of the project was made with a proper assessment of the effect on the overall goals of the Project.

(d). Contract for the preparation of feasibility study and detailed engineering design and consultancy services for the Improvement of Kandy Suburban Railway Service under the Asian Development Bank Loan Scheme had been assigned to be completed in 18 months in 2019 for USD 2,642,014 and EUR 1,385,208 valued Rs. 194 million to a private company with the approval of the Cabinet of Ministers. The project had paid Rs. 719 million to the relevant company as at 31 December 2023 and the consulting company had suspended the execution of the contract. As a result, the cost of the project had been futile and it was also observed that steps had not been taken to identify a source of funding for development activities after the feasibility study.	2021 2022 2023	Prompt actions should be taken to resume the project.	The scope of the project is only the feasibility study and the preparation of detailed plans. Therefore, all necessary steps will be taken to accomplish it, and providing the necessary funds to carry out the construction work is a task that should be done outside the scope of the project.	Actions had not been taken to resume consultancy services which were suspended.
(e). An amount of USD 7,490,874 had been signed by the	2021, 2022, 2023	The communication system should	A committee has been appointed to take further action	Using of the System was very low.

Secretary of the Ministry of Transport with a local private company for the establishment and operation of the island-wide railway communication system under the Asian Development Bank Loan Scheme. It was expected to provide a more efficient and safer train service to the public using the new communication system under the project and a sum of Rs. 1,901 million was spent as at 31 December 2023 for the system and completed in September 2022. Due to the fact that the Railway Department does not use the system in practically, the objectives of the project were not met and the expense incurred for that had been futile.

be operated after discussing with maximum efficiency and with the relevant actions should officers regarding be taken by the non-use of the officers in equipment. It is accordance stipulated to take with relevant actions according to the regulations. said committee report.

(f). The contract for construction of condominiums in Malapalla to resettle 120 families residing Right of Way (RoW) of the Kelani Valley Railway Line, using the ADB loan under

2023

Payments should be made according to the agreement and the contract should be completed by the due date.

As the estimated price increase of Rs. 858.5 million is evaluated against the actual variance and payment, it is subject to increase or decrease. The

Although a completion progress of 95 per cent has been reported, the completion cost has increased by 65 per cent due

the Colombo Suburban Railway Project had been awarded 05 months after receiving the approval of the Cabinet of Ministers for the award of the contract and accordingly, the Ministry of Transport had entered in to a contract agreement with Maga Engineering Pvt. Ltd. for a tax free value of Rs.1,317 million. The contract had been scheduled to be commenced on 04 June 2021 and the contract period was 36 months from the date of acceptance of the contract. After the contract period was extended for the first time, although it had been stipulated to commence the construction works on 21 June 2021, the commencement date of the project date had been delayed by another 6 months to 05 January 2022 according to the letter of the Project Director. Accordingly, it was observed that two years from 2018 to 2021 had elapsed to select the bidder for the Project and a price

provisions for this to delays in the are included in the implementation terms of the n of the agreement and Project. current market price fluctuations has affected by this. Therefore, the contractor has a contractual right to receive this payment.

fluctuation of 65 per cent has occurred due to the extension of the dates given from time to time for delays.

(g) A contract had been signed with a private company in 2019 for the completion of the project on 31 May 2021 at a cost of USD 19 million after a long tender evaluation process started in 2018 for the Smart Ticketing System for the Sri Lanka Railway. The project completion date was extended by 3 ½ years to 31 December 2024 and a sum of Rs. 321 million had been paid as an advance. It was observed that a sum of Rs. 21 million had also been paid as consultancy fees without receiving any progress on the Project having employed the services of a consulting firm since 2020 for project-related activities.

Further, it was observed that the due to the physical progress of the project being 34 per cent as at 30 June 2024 there is uncertainty about the completion of the project on time and that

**2022,
2023**

The project should be completed without delay and payments should be made as per the contract agreement.

Although two years have passed since this contract was implemented, there is a delay in delivering its outputs. The delay in the contractor's recognition of the requirements of the Railway Department and the instability prevailing in the country at that time had directly affected on this.

Any work on the Project had not been commenced.

the expected performance had not been achieved due to the inefficiency of the overall procurement process.

4.2. Colombo Suburban Railway Project

It had been agreed to provide a loan of Rs. 1456.50 million under Asian Development Bank Loan Agreement No. 3425 SRI (SF) for the Colombo Suburban Railway Project, which was initiated in 2016 and the contribution of the Government of Sri Lanka was Rs. 198.04 million. The project had been scheduled to be completed on 30 June 2023. Work is being done through the Project Management Unit using local funds to prepare the Kelani Valley Railway for development activities (resettlement activities) in accordance with Asian Development Bank policies.

Some important information about the financial status of the Project for the years 2021, 2022 and 2023 is shown below and the Auditor General had given an unqualified opinion on the project's financial statements for the years 2021 and 2022 and a qualified opinion for 2023.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total expenditure for the year			
Government funds			
Foreign funds			
Total Assets	4,733	4,836	6,955
Total Liabilities	0	0	0
Total Funds	4,733	4,836	6,955
From Foreign Debt			
From Domestic Funds			

In addition to the reasons for presenting that audit opinion, several important audit observations that arose from the audit reports submitted for the last 3 years related to the project are as follows.

	Major Deficiencies included in the Audit Report	Year of the Report	Recommendation of the Auditor General	Preventive Measures taken by the Audited Entity	Implementation status of recommendations as at the Date of the Report
(a)	Due to the fact that the actual interest cost for the entire project was USD 609,455 equivalent to Rs. 232.90 million and the total payment of interest was USD 498,970 equivalent to Rs. 190.68 million as at 31 December 2023, the value of payable interest amounting to USD 110,485 equivalent to Rs. 42.22 million was not disclosed in the statement of financial position in the year under review.	2023	Interest paid over the term of the loan should be accounted for.	Due to the fact that there was no any allocation provided in the PAM for loan interest accounting in the year 2023, it was not made a discloser in the annual project financial statements 2023. Furthermore, since the loan period of the project has been lapsed by 30.06.2023, there is no any legal background to account unaccounted loan interest by the project in future as well.	The interest payable had not been accounted for even up to now.
(b)	The main objective of the Colombo Suburban Railway Project (CSRP) was to develop Sri Lanka Railways in the Colombo suburban region to ensure its contribution to the National Transport system for next twenty years. ADB had already disbursed USD 8.52 Million equal to Rs.1,551.3Million to the Project as at 31	2021, 2022, 2023.	Development of relevant Railway Line should be carried out soon as possible.	Feasibility studies and detailed planning reports related to the project have been prepared and handed over to the Sri Lanka Railways Department, the Ministry of Transport and Highways and the National Planning Department by 30 April 2021. By this,	Railway development works have not yet been begun.

December 2023 and 95 per cent of this disbursed amount equal to Rs.1,469 million has been paid as consultancy services for Feasibility Study and Detail Design, Consultancy Service and although its reports had been submitted to the Line Ministry in 2021, those reports had not been used for further actions to develop the railway system.

the works on this Project is completed and project implementation has not been identified as a project task.

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| <p>(c) According to the loan agreement, it was proposed to complete the Project and hand over on 31 December 2022, and the Project had completed the utilization of the ADB loan related to the CSRP on that date. But due to the fact that the other parties who obtained the facilities under the loan agreement had not utilized the funds completely, the interest cost had continued. Even though the work was completed, by the end of year under review, the interest cost of USD 102,087.41 had been charged to the Project.</p> | <p>2023</p> | <p>Interest arising on delays in the components of the loan agreement should be borne by the delayed components.</p> | <p>As per the terms of the Asian Development Bank loan interest expense should be accounted for under the project until the date of closure of the Project. A sum of USD 102,087.41 was allocated to the CSRP Project as loan interest in the year under review accordingly.</p> | <p>Interest arisen on the delay in other components of the loan agreement that had been an expenditure to this project had not been withdrawn from this project.</p> |
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- (d) Smart Ticketing and Seat Resonation System for the railway service is currently being implemented as a Sub-project under the Colombo Suburban Railway Efficiency Improvement Project (CSREIP). The cost of Rs.19 million as consulting service fees for that sub-project was borne by the Colombo Suburban Railway Project (CSRP) based on approval of Cabinet of Ministry . Although this Project should be implemented within 03 years from the 17 September 2021, it is observed in audit that the expenditure made for this sub-Project has become fruitless since the Sub Project had not been achieved the expected progress.
- 2023**
- The project should be completed as soon as possible.
- The relevant local and foreign consultants duly completed the relevant works and using the bid documents, bids were invited and a contractor was selected under International Competitive Price (ICB) and the contract is in progress.
- Smart Ticketing and Seat Resonation System had not been installed.
- (e) Memorandum of Understandings (MOU) were signed In 2017 and 2018 with the Urban Development Authority (UDA) to purchase of 1244 housing units for the development of the Kelani Valley Railway, from 07 housing complexes to be constructed to resettle families living in the
- 2022**
- 2023**
- Resettlement activities should be carried out without delay to achieve the project objectives as planned.
- Construction progress of housing units is 89 per cent as at 29 February 2024. A letter had submitted to the UDA to arrange for the extension of the MOU for another 6 months due to the inability to achieve the progress of the housing units within the agreed period of
- The number of 550 housing units that were delayed had not been handed over to the project.

Railway Right of Way (RoW) on both sides of the railway for Rs.5,412 million . Even though the Authority had agreed to construct and hand over the houses to the project within 02 years from the date of the contract, due to repeated extensions of dates and new MoUs being entered into when construction was delayed, 550 housing units had not yet been handed over to the project even though 6 years had elapsed. Due to this, it was observed that, the resettlement process is being further delayed, and accordingly, the development of the railway system in the Colombo suburbs is being further delayed. Also, there had been a risk that the contracted price of a housing unit would increase from Rs. 5 million to Rs. 10 million as per the decision taken by the Urban Development Authority to reconsider the prices of houses under construction.

extending the days due to the electricity crisis in the country, fuel shortage and the public protests in the country. It is hoped that the remaining 11 per cent construction work will be completed within that period.

05. Education, Higher Education and Vocational Training Division

5.1. General Education Modernization Project - Component I

For the General Education Modernization Project—Component No. 1, which started on July 25, 2018, the World Bank had agreed to provide a loan of USD 100 million under Loan Agreement No. 6228 LK, and the Sri Lankan Government contributed Rs. 434,140 million. The project component No. 1 was extended and is planned to be completed in June 2026

Some of the important information about the financial status of the project in the years 2021, 2022, and 2023 are shown below the Auditor General had given an qualified audit opinion to the financial statements of the project for 2 years 2021 and 2022 and an unqualified audit opinion for the year 2022.

year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total cost of the year			
Government funds			
Foreign funds			
Total assets	1,715	2,006	2,515
Total liability	1,715	2,006	2,515
Total funds			
By foreign loans			
by local funds			

In addition to the facts that led to the presentation of the qualified audit opinion, some of the important audit observations that arose from the audit reports submitted for the last 3 years related to the project were as follows.

Audit Observations	Year of report	Auditor General's recommendation	Preventive measures taken by audit firms	Implementation status of recommendation as on date of report
(a) Due to non-submission of fixed assets register and detailed schedules, the property, plant equipment and library book balances shown in the financial statement as on 31st December 2021 could not be verified in audit.	2021	Action should be taken to maintain proper fixed assets register.	Assets register is being prepared.	An asset register was not maintained after the year 2021.
(b) Due to the extension of the school academic period to March 2023, the expected progress for the year 2022 of this program implemented in 500 schools in 9 provinces was 60 per cent. However the progress measurement of the progress was delayed and the evaluation of the progress of the program had not been carried out even by the date of audit.	2022	Every effort should be made to achieve the specified targets.	It has also been informed to conduct these tests at provincial before 30.06.2023	Even in the year 2023, the recommendations were not implemented.
(c) As per the paragraph 03 of the circular No.05/2021 dated 23 March 2021 issued	2023	Action should be taken to comply with the Circular.	No preventive measures have been taken	Recommendations were not implemented.

by the Secretary of Ministry of Education Circular related to School base learning enhancement Grants, It had been indicated that the action will be taken to provide the grants under the second phase in accordance with the methodology based on the performance achieved by the schools. It had been informed to the audit by the Ministry that the due provisions for 2022 had been provided to the National Schools which had not submitted the progress reports in relation to the provisions in 2021 also.

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| <p>(d) Contrary to the instruction of the letter No. EST/7/EXAMS/05/1007-6 dated 27 April 2017 of the Director General of the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government, all the official who participated in the</p> | <p>2023</p> | <p>Should be complying with the instruction of the Director General.</p> | <p>Set of new rules and guidelines are being prepared regarding the resource payment. And accordingly, it is strictly advised to limit the number of resource persons.</p> | <p>Although a decision had been taken in the Audit and Management Committee to prepare a circular, it had not been prepared.</p> |
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workshop held during normal daily working hours for 5 provinces were paid Rs.823,000 as resource allowances.

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| (e) | As per paragraph 9.3 of the Circular No. 01/2019 dated 15 March 2019 of the Ministry of Finance, Economic Stabilization and National Policies, the Line Ministries Secretary/ Provincial Council Chief Secretary should ensure for holding the Project Steering Committee meetings at least once in 02 months, however only one Steering Committee meeting had been held in the year under review. | 2023 | Action should be taken to comply with the circular and instructions stipulated in the project operational manual | Measures have been taken to conduct steering committee meeting accordingly in future. | By September 2024, the recommendations had not been implemented as a significant number of Steering Committee meetings had not been held. |
| (f) | Although internal audit should be carried out by the internal audit unit of the Ministry of Education as per the paragraph 96 of the Project Appraisal Document, however, the internal audit reports for the years 2021, 2022 and 2023 were not submitted. | 2023 | Steps should be taken to comply with the provision of the project Appraisal Document and the provisions of the Financial Regulation. | This GEMP project also plans to be done under a foreign project through the eight actions. | As no internal audit has been conducted for the years 2021, 2022 and 2023, the recommendations were not implemented. |

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| (g) | The progress related to the spending of 86 schools had not been submitted to the Ministry of Education even by 31 December 2023. From the presented financial progress, a sum of Rs. 26 million was remained after spending Rs. 65 million from the allocations given to 92 schools. | 2023 | Action should be taken to comply with the circular and records in relation to the utilization of the funds provided and also record should be maintained properly in order to evaluate the progress of project. | The National school branch has extended the timeline to spend due to the delay in fund transfer to many schools. | As progress is still being made by the schools, the recommendations have not been implemented, |
| (h) | The action had not been taken to report the financial progress in relation to Rs. 267.75 million in 253 schools even by 31 December 2023. From the presented financial progress, a sum of Rs. 16.4 million was remained after spending of Rs. 1.6 million from the allocations given to 19 schools. | 2023 | Action should be taken to comply with the circular. | Branch process is getting progress. The branch is getting the progress. | As progress is still being made by the schools, the recommendations have not been implemented, |
| (i) | Even though action had been taken to extend the date of completion of the incurring of the Rs.52.5 million grants given for 105 National Schools in 2022 up to 31 August 2023, the progress in relation to the expenses had not | 2023 | Action should be taken to comply with the circular. | Branch process is getting progress. | As progress is still being made by the schools, the recommendations have not been implemented, |

been submitted to the Ministry of Education even up to 31 December 2023

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| (j) | The School Affairs Branch has spent Rs. 1.2 million for conducting workshops related to printing of story books for the development of emotional skills of school students in the year 2022. Although 02 years had lapsed, the action had not been taken to create and print those 06 small story books by 15 May 2024. | 2023 | Action should be taken to achieve the target efficiently. | It is being processed. | The recommendation was not implemented due to inadequate provision. |
| (k) | Apart from the main objective of the project, Rs.81 million had been spend for conducting workshop and programmes in 12 branches where allocation link indicators are not operational for other purposes. | 2023 | Funds should be used in the project only to achieve the objectives. | It has been given that the World Bank has no objection to the relevant funds. | The recommendations were not implemented as letters of no objection were obtained in the year 2024 as well. |
| (l) | A sum of Rs. 120 million had been spent for workshops and out of that 62 present thus Rs.74 million had been spent for the capacity development of the school community. | 2023 | The expenditure for the capacity development of school students should be increased. | No preventive measures have been taken . | Recommendation s were not implemented. |

Accordingly, only Rs.7 million which was 6 percent of the total expenditure had been spent for the capacity development of school students.

5.2. General Education Modernization Project - Component II

For the General Education Modernization Project - Component II which started on July 25, 2018, the World Bank had agreed to provide a loan amount of USD 100 million under Loan Agreement No. 6228 LK and the Sri Lankan Government's contribution was Rs. 434,140 million. The project was extended at one point and planned to be completed in June 2026.

Some of the important information about the financial status of the project in the years 2021, 2022 and 2023 are shown below and the Auditor General had given an unqualified audit opinion to the financial statements of the project for 2 years 2021 and 2023 and an qualified audit opinion for the year 2022.

year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total cost of the year			
Government funds			
Foreign funds			
Total assets	275	453	443
Total liability	275	453	443
Total funds			
By foreign loans			
by local funds			

In addition to the facts that led to the presentation of the qualified audit opinion, some of the important audit observations that arose from the audit reports submitted for the last 3 years related to the project were as follows.

Audit Observations	Year of report	Auditor General's recommendation	Preventive measures taken by audit firms	Implementation status of recommendation as on date of report
(a) An expenditure estimate of Rs.175 million had been prepared for 04 activities for the year 2022 and subsequently, it has been revised to Rs.186 million for 05 activities in the fourth quarter. Further, the estimate was again revised to Rs.168 million on 20 December 2022. Accordingly, a proper financial plan was not implemented to carry out the tasks expected under Component II.	2022	Action should be taken to implement proper financial plan.	No preventive measures have been taken	Recommendations were not implemented.
(b) Even though an Internal Audit should be carried out by the Internal Audit Unit of the Ministry as per the paragraph 96 of the Project Operational Manual, the project had not been identified in the Internal Audit Plan furnished relating to the year 2023. However, even though an Internal Audit Report had been issued relating to the Mathematics,	2023	Rules and regulations should be followed.	This GEMP project also plans to be done under a foreign project through the eight actions.	No internal audit was conducted for the years 2021, 2022 and 2023.

English and Foreign Languages Branch covering the years 2019 and 2020 of this Project in May 2023, reports had not been issued covering the years 2021, 2022 and 2023.

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| <p>(c) Even though action had been taken to extend the closing at spending a sum of Rs.50.2 million provided by Grants for 69 schools on 16 December 2022 for the year 2022, to 31 August 2023, the financial progress relating to a sum of Rs.50.2 million provided for 69 schools had not been furnished to the Ministry of Education even by 31 December 2023.</p> | <p>2023</p> | <p>Project funds should be used efficiently and effectively.</p> | <p>A circular number 32/2023 has been issued in the year 2023.</p> | <p>As progress is still being made by the schools, the recommendations have not been implemented,</p> |
| <p>(d) Even though the implementation of the Disbursement Linked Indicators should be carried out under the Component I of the project in terms of the Operational Manual, a sum of Rs.144.2 million had been provided to schools under the Component II.</p> | <p>2023</p> | <p>Financing should be done towards the project objective.</p> | <p>No preventive measures have been taken</p> | <p>Recommendations were not implemented.</p> |

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| (e) | The expenditure amounting to Rs.2 million incurred for the execution of the duties under the purview of the subject-related functions of the branches as well as the Sectors included in the List of Duties of the Executive Officer of those branches had been stated as Capacity Development Expenditure. | 2023 | Expenses should be properly managed. | No preventive measures have been taken | Recommendations were not implemented. |
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| (f) | Even though the Third Party Confirmation Report on the achievement of the Disbursement Linked Indicators (DLI) of the Project should be furnished to the World Bank before 28 February of the following year of the year of the audit, those reports had not been furnished for the year 2023. It was observed that the evaluations relating to the submission of those reports had not been completed even by May 2024 | 2023 | Reports should be submitted in due time. | Since the academic year 2023 ended in February 2024, at the moment third party validation is in process. | The recommendation s were not implemented in the year 2023 as well. |
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5.3. Accelerating Higher Education Expansion and Development Operation Project (Program Component)

The International Bank for Reconstruction and Development and the International Development Association had agreed to provide a loan of Rs. 18,136 million under Loan Agreement No. 8743 LK for the Accelerating Higher Education Expansion and Development Operation Project (Program Component) which commenced in 2018. The project had extended in one time and was scheduled to be completed on 31 December 2023

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is given below and the Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs.Mn	Rs.Mn	Rs.Mn
Total expenditure for the year			
Foreign Fund	6,031	4,449	4,664
Total Assets	12,614	17,546	21,490
Total Liabilities			
Total Funds			
By Foreign Loans	12,614	17,546	21,490

In addition, several important audit observations arose from the audit reports submitted for the last 3 years related to the project were as follows.

Audit Observations	Year of the Report	Auditor General's Recommendation	Preventive measures taken by the project/executing agency	Current Status
(a) Under this project of the University of Sri Jayewardenepura, the building that was planned to be constructed with 04 floors for the Pathology Department was handed over to the university after only 02 floors were completed at a cost of Rs.153 million.	2023	The terms and conditions set out in the contract agreement must be complied with.	The structural work has been completed along with all external works for all four floors. Due to the unexpected price fluctuation caused by the COVID-19 pandemic, based on the decision taken by the authorities, the construction work has been limited to the existing budget allocations, the two floors have been completed and put into use as intended, and the remaining work on the building is being completed to complete the construction work.	Since the 1 st and 2 nd floors are not fully completed, they have been used unsafely to carry out laboratory work. The remaining work on the ground floor, 1 st and 2 nd floor is still pending.
(b) The Acceleration of Higher Education Expansion and Development	2023	Maximum effort must be taken to achieve the final result.	The entire project timeline was disrupted significantly	No effort was made to achieve the final result.

(AHEAD) project, with the assistance of the World Bank loan, had spent Rs.50 million on a research project aimed at introducing the currently used household compost bin as a large-scale production model and a highly commercial product to the market. The harvesting unit which is operating with the unit of the large-scale compost bin that produced quality animal feed and organic fertilizer had not been able to commercialize due to the failure to meet the criteria set by the National Intellectual Property Office of Sri Lanka. Although a patent had been applied for the food prepared by the larvae and the technical method of preparing the food, the application had also been rejected due to weaknesses in the technical method. The expenses incurred had been wasted due to the failure to meet the relevant criteria and to achieve the desired results.

due to the covid pandemic. The mini compost piles were not as popular as we had planned. This was due to the pandemic and the restrictions on movement and staying home. Therefore, the mini bin could not be tested successfully.

The basic patents used to make the mini bin had major flaws. It was not friendly design to the outdoor environment.

The Intellectual Property Office of Sri Lanka was not considered as the patent approval agency.

Therefore, we think that the heavy rain, humidity and night-time temperature conditions in the environment where these tests were conducted may

have caused changes in the microbial activity and odor.

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| <p>(c) The project was awarded the contract on 15 December 2021 for the construction of a building for Engineering Technology and Systems Technology for the University of Jaffna at a value of Rs. 432 million. According to the agreement, the construction was to be completed in June 2023, but the date was extended to 31 December 2023. However, it was observed that only 36 percent of the construction work had been completed by 31 December 2023.</p> | <p>2023</p> <p>Measures should be taken to prevent delays and ensure that the contract work is completed on time.</p> | <p>The University of Jaffna expected to complete Phase II by June 2023, and with this expectation, it was easy to comply with the government's policy of increasing student enrolment in the Faculty of Technology. Currently, about 400 students are admitted in each academic year. The existing building facilities are not adequate to accommodate the increase in student numbers. This affects the quality of the academic program and may lead to student unrest. The remaining funds of the Accelerating</p> |
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- It's not finished yet.

Higher Education Expansion and Development Project (AHEAD) project were requested to be allocated to the Ministry of Education and directed to the University of Jaffna, so that the university can continue and complete its future work. The university has already made requests for assistance to the university in this regard and has drawn attention to this matter with all relevant parties.

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| <p>(d) The mobile laboratory bus purchased by the University of Sabaragamuwa on 24 February 2021 at a cost of Rs. 14 million from the provisions of this project with the aim of improving the practical skills of students, carrying out activities with farmers and small/medium scale agribusinesses at the grassroots level,</p> | <p>2023</p> | <p>Project resources must be utilized without delay.</p> | <p>I would like to highlight that due to unavoidable and unforeseen circumstances, we were unable to utilize these resources as planned during the online teaching periods. However, we are pleased to</p> | <p>Underutilized.</p> |
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and developing the field knowledge of students and staff, has been used for academic activities on only 06 occasions between March 2021 and December 2023, and accordingly the bus remained underutilized.

announce that we have planned several field trips, demonstrations and community development programs utilizing these resources once the current non-academic activities is lifted.

5.4. Accelerating Higher Education Expansion and Development Operation Project (Project Component)

The International Bank for Reconstruction and Development and the International Development Association had agreed to provide a loan of Rs. 18,136 million under Loan Agreement No. 8743 LK for the Accelerating Higher Education Expansion and Development Operation Project (Project Component) which commenced in 2018. The project had extended in one time and was scheduled to be completed on 31 December 2023

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is given below and the Auditor General had given an unqualified opinion on the financial statements of the project for the years 2022 and 2023.

Year	2021	2022	2023
	Rs. Mn	Rs. Mn	Rs. Mn
Total Expenditure for the year			
Foreign Funds	210	203	196
Total Assets	754	930	1,078
Total Liabilities	8	59	59
Total Funds			
By Foreign Loans	746	871	1,019

In addition, several important audit observations arose from the audit reports submitted for the last 3 years related to the project were as follows.

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive Actions Taken by the Audit Institution	Implementation Status of the Recommendation as of the Date of the Report
According to the financial statements, a sum of Rs.29.3 million had been incurred during the year 2023 for the Operations and Financial Support Team (OMST) building cost, which includes Rs. 21 million as office rent, Rs. 1.6 million as office cleaning charges and Rs.6.5 million as electricity charges. However, only 22 project staff had been employed in the building.	2023	The costs should be incurred in an economically advantageous manner.	Only the third floor was rented during the year 2023 and the monthly rent was Rs.700,000.	The project was completed in the year 2024.

5.5. Science and Technology Human Resource Development Project

The Asian Development Bank had agreed to provide a loan of Rs. 23,200 million under Loan Agreement No. 3698 SRI and No. 3699 SRI (COL) for the Science and Technology Human Resource Development Project (STHRD Project) which commenced in 2018 and the contribution of the Government of Sri Lanka amounted to Rs. 3,200 million. The project had extended in one time and was scheduled to be completed on 31 December 2023.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the project for the year 2021 and unqualified opinion for the years 2022 and 2023.

Year	2021	2022	2023
	Rs. Mn	Rs. Mn	Rs. Mn
Total Expenditure for the year	336	271	276
Government Funds	3,971	6,694	7,258
Foreign Funds			
Total Assets	8,504	24,787	29,724
Total Liabilities	2,226	796	771
Total Funds			
By Foreign Loans	5,706	15,931	27,834
By Local Funds	571	843	1,118

In addition to the factors that led to the submission of the qualified audit opinion, several important audit observations arising from the audit reports submitted for the last 3 years related to the project are as follows.

	Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive Actions Taken by the Institution	Implementation Status of the Recommendation as of the Date of the Report
01	The building to be constructed for the Faculty of Engineering of the University of Sri Jayewardenepura was scheduled to be completed on 22 July 2023 and has been extended to 31 October 2024. According to the contract progress reports, only 36 percent of the physical progress had been achieved as of 31 January 2024, three years after the commencement date. Therefore, a significant amount of remaining work, representing 64 percent, must be completed within the remaining nine months of the contract period.	2023	Necessary action should be taken to expedite the contract work.	The project has been advanced twice again after high-level committee discussions and the number of employees has been increased from 100 to 500. All materials have been procured and are being directly supervised.	The date has been extended until 31 December 2024.
02	According to the loan agreement, the project was scheduled to be completed by 31 December 2023. However, although 05 years and 8 months had passed since the project was initiated as of 31 December 2023, only 50.26 percent, representing USD 72.89 million, out of 87.9 percent,	2023	Necessary measures should be taken to expedite the contract work.	The loan fund consists of USD 129.7 million for construction, goods and other expenses and USD 15.3 million for loan interest and commitment fees. Out of the allocated loan fund of USD 129.7 million,	It is planned to complete the award of all procurement activities by 31 December 2024 in order to fully utilize the loan by the loan maturity date of 30.06.2025.

representing USD 145 million allocated by the lending agency had been utilized. Commitment fees of USD 795,741 equivalent to Rs. 176 million had been paid for the unused loan balance as at 31 December 2023. Therefore, the audit was doubtful about the utilization of 49.73 percent of the loan balance of USD 72.11 million and the ability to complete the project within the remaining 18 months of the project period.

contracts worth USD 97.22 million have been completed and the remaining grant can be completed within the project period (31 December 2024) and disbursements can be completed until the loan closes on 30 June 2025. Therefore, the entire project fund can be utilized by 30 June 2025.

03	A number of 1,098 library books were purchased for the University of Sri Jayewardenepura in the year 2020 at a cost of Rs. 17 million. Out of these, 1,095 books had not been issued to readers from the date of purchase until 30 November 2023	2023	Necessary measures should be taken to utilize project resources without keeping them idle.	Currently, the purchase of library books has been stopped and students have been encouraged to use books.	Not answered.
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04	<p>The main objective of the construction of the Faculty of Engineering at the University of Sri Jayewardenepura is to increase the enrollment of students in the Faculty of Engineering from 120 up to 400 for the academic year 2023. However, due to the delay in completing the Faculty of Engineering under the project, 180 students had to be enrolled so far. In addition, the University had to pay Rs. 19 million as rental fees for the building rented to run the Faculty of Engineering between July 2023 and February 2024 due to the delay.</p>	2023	<p>Necessary steps should be taken to expedite the contract work.</p>	<p>The construction work of the Faculty of Engineering has been carried out efficiently.</p>	Not answered.
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5.6. Project on Creating Innovative Approaches for Private Sector and Women's Empowerment in the Technical and Vocational Education and Training (TVET) Sector in Sri Lanka (Professional Sector Development Program Grants)

The Industrial Sector Development Program (Grant) initiated on 11 May 2018 was approved to provide a loan of Rs. 534 million under the Asian Development Bank's Loan Agreement No. SRI(EF) 9193 and there is no contribution from the Government of Sri Lanka. The project was extended in 02 phases and was scheduled to be completed on 31 October 2023..

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below. The Auditor General had given a qualified opinion on the financial statements of the project for the years 2021 and 2022 and an unqualified opinion for the year 2023.

Year	2021	2022	2023
	Rs. Millions	Rs. Millions	Rs. Millions
Total expenditure for the Year			
Government funds	137.45	321.71	880.8
Foreign funds			
Tottal Assets	-	-	-
Total Liabilities	-	-	-
Tottal Funds			
Through foreign loans	50.50	219.14	559.09
Through domestic funds			

In addition to the facts that led to the presentation of the audit opinion, some important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

	Audit Observation	Reported year	Auditor's recommendations	Preventive measures taken by the audited entity	Status of implementation of the recommendation as of the date of the report
(a)	According to the 2021 Detailed Action Plan, no program had been introduced to reach international markets for women entrepreneurs under Activity 2.6.2.	2021	Management must take the necessary steps to achieve the desired goal.	This activity process was initiated in 2021. As such activities require a reasonable timeframe and as per the project plan, this was achieved in 2022.	Recommendations have not been implemented.
(b)	It was a common observation in the above constructions that the Technical Evaluation Committee did not evaluate whether the construction estimates submitted by the relevant grantee were realistic according to the prices and quantities issued annually by the Building Construction Bureau, and that a proper internal control system had not been introduced in making payments.	2022-3.1 –4-(c)	Construction methods should be streamlined..	Such verification was not required under the project guidelines (ADB provided guidelines and technical guidance).	Recommendations have not been implemented.

(c)	The main deliverables to be provided by the consulting firm as per clause (D) of the Terms of Reference (TOR) included in the agreement, except for the inception report, annual report and soft copy of the 5-year strategic plan for ISSC, had not been submitted for audit.	2022-3.1 –(6)-(b)	Major deliverables must be delivered on time as per the Terms of Reference (TOR).	All the required documents have been submitted to the audit via email. (These were submitted to the auditor via email as the files are heavy and the audit officers agreed to accept them as soft copies.)	Recommendations were not implemented at the end of the project..
(d)	Rs. 2.5 million was allocated for the development of a management information system and a website for the Agricultural Technology Extension Center. However, the Technical Evaluation Committee selected a service provider without transparency, using outdated and fraudulent prices and criteria not included in the specifications.	2023-3.1 –(a)	A service provider should be selected with transparency.	They confirmed that the procurement was carried out in accordance with the procurement guidelines, based on information received from the Agricultural Technology Extension Center. The procurement was carried out by the Agricultural Technology Extension Center.	Recommendations were not implemented at the end of the project.
(e)	The Information and Communication Technology Industry Skills Council has developed a mobile	2023-3.1 –(b)	Arrangements should be made to obtain the necessary facilities to implement the	The council had decided to enter into a partnership with Sri Lanka	Recommendations were not implemented at the end of the project.

app at a cost of Rs. 11.23 million with the aim of registering and accessing the service of students and industrialists completing courses in the Technical Vocational Education and Training (TVET) sector.

However, due to the lack of facilities required to operate the mobile application, it is not currently operational for the benefit of the council, students and industrialists registered with the application.

Therefore, the cost incurred in developing the above application is in vain.

developed mobile application..

Telecom Mobitel. After several product review sessions, Sri Lanka Telecom agreed to use the Mobitel Pro Connect application and a Memorandum of Understanding (MOU) was signed. However, they later informed the council that their focus on Pro Connect has been delayed as their technical and marketing teams are currently engaged in other projects. As a result, the product is currently dormant.

(f) Under Activity 4.2.1.1, Rs. 8.86 million was awarded to the Research Development Training Institute for the purchase of drone equipment. During the physical inspection conducted on May 2, 2024, it was observed that the	2023-3.1 -(c)	Drone equipment should be used effectively.	The Institute of Research Development Training (IRDT) has 7 certified drone pilots trained with ASSC across the Northern Province. Drones are not	Recommendations were not implemented at the end of the project..
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purchased drone equipment was lying idle at the institution without being utilized for training or agricultural activities as stated in the project proposal due to the lack of a knowledgeable instructor to operate the equipment and the institution not being properly established as a training institution. Furthermore, there was no progress in the training courses conducted by the institution.

used year-round and are used seasonally for agricultural purposes. When not in season, they are stored according to the instructions provided by the drone manufacturers.

(g) According to an agreement entered into with an entrepreneur, it is required to construct a road system in a plant nursery with a width of 1 meter, a thickness of 0.15 meters and a length of 1207 meters. However, according to the measurement sheet submitted by the contractor, a road system with a width of 1.22 meters, a thickness of 0.15 meters and a length of 719 meters had been constructed and it was observed that	2023-3.1 –(d)	After confirming the completion of the intersection, steps should be taken to reimburse the entrepreneur.	Agreed. Payments were made on the recommendation of the Chartered Engineer. However, the private sector expert had not carried out physical verification. We are currently conducting a physical verification to verify the facts stated in the audit report and steps will be taken to correct	Recommendations were not implemented at the end of the project..
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the total grant of Rs. 3.22 million had been reimbursed to the entrepreneur without confirming the length of the road constructed by the entrepreneur.

the matter after reading the report.

(h) A total of Rs. 3.51 million was given to an entrepreneur to achieve 02 junctions. According to the agreement, NVQ training program should be implemented under junction 01 and it needs to be verified through TVEC/NAITA certificate. However, it was observed that the relevant training center had issued NVQ 3 certificates even though the authority to issue NVQ certificates belongs to TVEC only.	2023-3.1 –(e)	NVQ certificates should be issued in an acceptable manner.	At that time, there was no institution registered and accredited to issue NVQ certificates for the desired program. However, Cinnamon Training Academy had obtained accreditation to issue this certificate as of 26.04.2021. Although they were not accredited at that time, they had a valid registration with the Tertiary and Vocational Education Commission (TVEC). Therefore, the certificate issued by Cinnamon Training Academy was	Recommendations were not implemented at the end of the project..
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			accepted as the next best option.		
(i)	<p>A total of Rs. 293.07 million equivalent to US\$ 911,540 was spent on the establishment of 32 smart classrooms, including the acquisition of equipment for the Ministry. According to the information provided, 400 Learning Management Systems (LMS) were procured for lecturers at a cost of Rs. 5.67 million. However, only 320 Learning Management Systems were allocated for 32 training centers. Therefore, the audit could not verify the allocation of the remaining 80 Learning Management Systems worth Rs. 1.13 million procured. Furthermore, out of the 320 Learning Management Systems allocated for lecturers, 183 Learning Management Systems representing 57 percent were used for academic purposes.</p>	2023-3.1 –(f)	<p>The use of smart classrooms for academic activities should be followed up.</p>	<p>There is agreement among lecturers and students that the use of Learning Management Systems (LMS) is low and that the reason for this is lack of training. The Ministry has plans to provide training with increased focus on this issue when funds become available.</p>	<p>Recommendations were not implemented at the end of the project.</p>

In addition to the above, out of the 3,200 Learning Management Systems worth Rs. 45.37 million procured and allocated for students' academic purposes, only 753 Learning Management Systems representing 24 percent were used for academic purposes and there were 16 training centers where no student licenses were used due to lack of training for lecturers, training materials and facilities for students pursuing the courses. Therefore, the effectiveness of the pilot project was low.

(j) The Internal Audit Division of the Implementing Agency had not conducted an internal audit on the activities carried out by the project..	2023-3.2	No comments.	Internal audit should be carried out by the project implementing agency.	Recommendations were not implemented at the end of the project..
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5.7. Skilled Sector Development Program (Loan)

The Industrial Sector Development Program (Loan) initiated on 27 May 2014 was approved to provide a loan of Rs. 15,608 million under the Asian Development Bank's Loan Agreements No. 3119 (SRI) (SF) and 3120 (SRI) (SF) and the Government of Sri Lanka had not contributed to it. The project was extended on 02 occasions and was scheduled to be completed on 30 June 2023.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below. The Auditor General had given an unqualified opinion on the project's financial statements for the years 2021 and 2023 and a qualified opinion for the year 2022.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure for the year			
Government funds			
Foreign funds	18,947.82	95,083	4,946.62
Total assets	31,773	63,877	60,357
Total Liabilities	880	855	836
Total funds			
Through foreign loans	4,617.59	2,321.45	644.69
Through local funds			

In addition to the factors that led to the submission of the qualified audit opinion, several important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows:

	Audit Observation	Reported year	Auditor's recommendations	Preventive measures taken by the audited entity	Status of implementation of the recommendation as of the date of the report
(a)	32 people had enrolled for the postgraduate course at the University of Vocational Technology, but only 12 trainees had completed the course.	2021-3.2 (a)	Management should take necessary steps to plan and implement training to achieve the desired goals of the program.	No comments.	The recommendations had not been implemented at the end of the program.
(b)	A provision of Rs. 4 million had been allocated for the academic research and innovation projects conducted by the staff of the University of Vocational Technology, UMBWTI and UCS, but no financial progress had been made and only 5 project proposals had been submitted for approval.	2021-3.2 (c)	Management must take the necessary steps to achieve the desired goals.	No comments.	The recommendations had not been implemented at the end of the program.
(c)	Quality Management System (QMS/QIS) has been established under DLI 02 from 2016 to 2022 in 305 vocational training	2022-3.1(d)	Actions should be made to monitor the continued quality of training centers to provide quality services.	DLI 02, related to the Quality Management System, aims to establish quality improvement systems in 300 TVEC registered	The recommendations had not been implemented at the end of the program..

centers, 175 with 3 stars and 130 with 4 stars, to improve the quality of training centers, and Rs. 168.74 million was spent for this. However, according to the Tertiary and Vocational Education Commission

reports, although 223 training centers in the public and private sectors had obtained quality certificates, the validity period of all those certificates had expired on December 31, 2022. Furthermore, only 29 institutions had renewed the certificate obtained and the validity period of the renewed certificates had expired on December 31, 2022. Therefore, it was observed that the quality of the training centers had not been maintained continuously until the end of the program in 2023.

training centers by 2020. By the end of 2020, the QIS system has achieved its objectives.

<p>(d) According to the construction information provided to the audit, Rs. 954.1 million had been spent on the establishment of 07 government university colleges through the program. Although a gazette notification was issued to establish 05 university colleges, no legal documents related to the establishment of Katubedda and Batangala university colleges had been submitted for audit. Furthermore, 03 university colleges had been established under public-private partnership. However, these university colleges were not operational at the end of the year under review.</p>	<p>2022-3.1(e)-(iv)-(b)</p>	<p>Steps should be taken to obtain legal status for the remaining university institutions.</p>	<p>Cabinet approval was granted on 1 February 2013 to construct 25 university colleges for the Vocational Technology University in accordance with the provisions of the Vocational Technology University Act No. 31 of 2008, vide Cabinet Paper No. 13/0042/539/001 . Accordingly, the construction of 5 Vocational Technology Universities has commenced on lands owned by the Ministry. After that, the construction of Batangala and Katubedda Vocational Technology Universities has also commenced. After its completion, only Batangala was used as a university college. The other building constructed as part of CGTTI has been started</p>	<p>The recommendations had not been implemented at the end of the program.</p>
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to be used by the students of the Ceylon German Industrial Training Institute to conduct their courses.

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| <p>(e) It was observed that the desired objectives have not been achieved due to the fact that these councils are not properly included in the technical vocational education and training sector, the councils are operating with government funds, insufficient steps are taken to generate self-income, the lack of permanent staff and administration, the lack of legal status for the councils, and the lack of a proper monitoring mechanism.</p> | <p>2022-3.1(f)-(iv)</p> | <p>Steps should be taken to guide the achievement of the objectives of establishing such councils.</p> | <p>A comprehensive review of the past operations of the councils has been conducted and areas for improvement have been identified and appropriate actions will be taken to lead the councils towards good performance. A strategic plan has been prepared to generate self-revenue, recruit staff as required and provide the necessary legal status to ensure the achievement of the councils' objectives and ensure their sustainability. The document has been reviewed by the Sectoral Strategy Development Advisors and is</p> | <p>The recommendations had not been implemented at the end of the program.</p> |
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expected to be implemented after final approval by the Secretary/Leadership.

- (f) An internal audit had not been conducted by the Internal Audit Division of the Implementing Agency in accordance with Financial Regulation 133. 2022-3.3
- In accordance with Financial Regulation 133, the Internal Audit Division should audit the activities of the program.
- The program period was extended to achieve the desired DLI goals, and budget was allocated exclusively for these activities and other ongoing work. The purpose and necessity of holding a Steering Committee meeting is to obtain Steering Committee approval for the activities. In this context, there was no such need as the necessary Steering Committee approval for the FLM activities had already been obtained.
- The recommendations had not been implemented at the end of the program.

As per the 2023- Cabinet decision 3.1-(b) taken on 12 September 2017, Rs. 253.8 million

was allocated for the construction of a new 3-storey hostel building in Kilinochchi to provide residential facilities for 400 students and a contract was awarded on 20 May 2020 for an estimated cost of Rs. 185.61 million.

Subsequently, a Memorandum of Understanding was signed on 28 February 2023 for the completion of the first floor of the building at a revised estimated cost of Rs. 120.14 million.

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| <p>(g) Due to poor progress in the work related to water supply and drainage, electricity and sewage treatment plant, residential facilities on the first floor of the hostel building could not be provided to the trainees until the date of the audit.</p> | <p>2023-3.1-(b)-(i)</p> | <p>Arrangements should be made to monitor the contractor's work.</p> | <p>The contractor has been instructed to complete the remaining work before July 15, 2024. Furthermore, residential facilities for students will be provided on July 3, 2024.</p> | <p>The recommendations had not been implemented at the end of the program.</p> |
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(h)	<p>Training equipment worth Rs. 4.47 million had been acquired for the cooking course in Pottuvil in the year 2016. However, due to the lack of instructors, the relevant course had not been started up to the date of audit. Therefore, this equipment was idle and the warranty period had also expired.</p>	<p>2023-3.1-(c)-(i)</p>	<p>Steps should be taken to facilitate the effective use of training equipment.</p>	<p>No comments</p>	<p>The recommendations had not been implemented at the end of the program.</p>
(i)	<p>The program had spent Rs. 162.18 million to renovate the Ahangama Hotel School as a hotel to provide training opportunities for students. However, as of May 10, 2024, such training programs had not commenced.</p>	<p>2023-3.1-(c)-(ii)</p>	<p>Actions must be done to achieve the objective of the program.</p>	<p>No comments</p>	<p>The recommendations had not been implemented at the end of the program.</p>
(j)	<p>Contrary to the objectives of the Vocational Training Authority, 22 hotel rooms were constructed at a cost of Rs. 91.03 million with the aim of providing them to tourists in the Ampara and Jaffna districts, and</p>	<p>2023-3.1-(c)-(iii)</p>	<p>Hotel rooms should be put to useful use without further delay.</p>	<p>No comments.</p>	<p>The recommendations had not been implemented at the end of the program.</p>

furniture worth Rs. 6.10 million was purchased for this purpose, and it has remained idle since 2017.

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| (k) | A two-storey hostel building, constructed at a cost of Rs. 140.21 million, consisting of 12 fully furnished rooms to accommodate 52 trainees of the Kuchchiveli Hotel School, had been lying idle for 6 years since 2017 due to the inability to obtain a permanent water supply to the building. | 2023-3.1-(c)-(iv) | Steps should be taken to obtain the necessary facilities to use the hostel building in a beneficial manner without further delay. | No comments. | The recommendations had not been implemented at the end of the program. |
| (l) | The contractors had abandoned the construction work of the Monaragala, Dambulla and Lovelane training centres after completing 70 percent and 65 percent respectively, and by then the programme had spent Rs. 142.70 million. However, it was observed that the National Youth Council had re- | 2023-3.1-(d)-(i) | Urgent steps should be taken to complete the remaining construction work. | Classes are held on the ground floor of the Lovelane Training Classroom Building. Work on four classrooms on the upper floor has been completed and provisions are to be made to complete the remaining work. | The recommendations had not been implemented at the end of the program. |

awarded the contracts and the remaining works had not been completed by 30 June 2023.

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| <p>(n) According to the final report of the program, Rs. 535.78 million has been provided for the improvement of 5 buildings of the National Youth Council. However, it is shown as Rs. 456.2 million in the information received from the relevant institution.</p> | <p>2023-3.1-(d)-(ii)</p> | <p>Actions should be made to identify the correct value of the construction.</p> | <p>The expenditure of the National Youth Council in Ratmalana has been double-counted and it has been Rs. 535.78 million. According to our report, the correct amount is Rs. 497.84 million.</p> | <p>The recommendations had not been implemented at the end of the program.</p> |
| <p>(o) According to the final report of the Construction Works Programme of Technical Colleges and Colleges of Technology, Rs. 1,093.48 million was allocated for the improvement of 36 buildings of the Department of Technical Education and Training. However, according to information received from the relevant institution, it was Rs. 711.8 million.</p> | <p>2023-3.1-(e)-(i)</p> | <p>Action should be made to identify the correct value of the construction.</p> | <p>According to the replies of the Department of Technical Education and Training, the total expenditure incurred for the Department of Technical Education and Training is Rs. 711.8 million. The value of the estimate for the renovation of the buildings of the implementing agencies of the Skill Sector Development Program has</p> | <p>The recommendations had not been implemented at the end of the program.</p> |

been identified.

The value of the Department of Technical Education and Training centres in Bandarawela, Hasalaka, Ratmalana, Vavuniya, Kalutara, Wariyapola, Samanthurai, Nuwara Eliya, Polonnaruwa, Dambulla and Batticaloa has doubled and is Rs. 1,093.48 million.

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| (p) | Bathroom fittings worth Rs. 464,400 provided through the program on 24 August 2015 for the construction of a bathroom in the Hospitality Management Laboratory of the Batangala University College were still lying idle as of 06 March 2024, the date of audit. | 2023-3.1-(f)-(i) | Construction work should be expedited without further delay. | Construction is currently underway. | The recommendations had not been implemented at the end of the program. |
| (q) | 591 books worth Rs. 1.45 million, which were not relevant to the courses conducted by the Ratmalana | 2023-3.1-(f)-(ii) | Actions should be taken to use books in a beneficial manner. | No comments. | The recommendations had not been implemented at the end of the program. |

University College, remained idle for 9 years.

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| (r) | The TV Post Production Technology Laboratory of the University College of Ratmalana had 31 desk microphones worth Rs. 423,243, but as of the audit date of February 6, 2024, they had remained idle for 9 years due to their non-relevance to the students studying the courses. | 2023-3.1-(f)-(iii) | Equipment should be used in a useful manner. | No comments. | The recommendations had not been implemented at the end of the program.. |
| (s) | According to the program's completion report, there were 40 newly developed National Competency Standards (NCS) and curricula for courses and 29 revised National Competency Standards and curricula. However, according to information received from the Tertiary and Vocational Education Commission, there were 36 courses | 2023-3.1-(f)-(iv) | Steps should be taken to introduce relevant national skills standards and curricula. | National Skills Standards are developed when requested by the industry as required for the industry. The implementation of the training course is carried out by the relevant industry. Therefore, some national Skills Standards are not used at the discretion of that industry. The industry sector skills councils have always | The recommendations had not been implemented at the end of the program. |

that were not attended by any students and 12 courses that were attended by between 5 and 78 students due to the failure to introduce courses that met the demand of students, the lack of qualified instructors for the courses introduced, and the weak intervention of the Industry Skills Council.

been involved in the development and validation process of national skills standards, curricula.

06. Housing and Urban Development Section

6.1. Anuradhapura Integrated Urban Development Project

The French Agency for Development had been agreed to be given Rs 8,354.32 million loan amount under the loan Agreement No: CLK – 100901 for the Anuradhapura Integrated Urban Development Project which commenced on 01 December 2016 and the Government contribution was Rs.1,670.86 million. The project was extended on 03 occasions and planned to be completed on 30 September 2023.

Some important details about the financial status of the project are below for the years 2021, 2022 and 2023 and the Auditor General had given an unqualified opinion to the financial statements of the project for the year 2021 and qualified opinion for the 2 years 2022 and 2023.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total cost of the year			
Government Funds	254.99	115.73	274.52
Foreign Funds	316.73	1,005.28	281.93
Total Assets	1,084	2,252	3,254
Total Liabilities	35	78	101
Total Funds			
By Foreign Loan	625.57	1,773.41	1,783.14
By Domestic Funds	275.03	390.78	665.29

In addition to the facts that led to the presentation of the qualified audit opinion, some important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

	Audit Observation	Reference to the year of the audit report	Auditor General's recommendation	Preventive measures taken by the Audited Entity	Current status of recommendation as at date of report
(a)	The Ministry had stopped this project contrary to the instructions given by the paragraph (iii) of the National Budget Circular No.03/2022 as "In suspending the partially completed infrastructure development, the necessary parts should be completed so as to minimize the inconvenience to the people using the infrastructure and ensure their long-term existence."	2023	Action should be taken to expedite the remaining work.	Actions are being taken now to rectify the variations and other technical issues. The contractors claimed are being evaluated at present.	Although the project had to be temporarily suspended base on the economic situation and the decisions taken by the government regarding the operation of the project, the project is already on progress reducing the scope of the project .
(b)	Although the project should have been completed the procurement process of 12 packages valued at Rs. 6,562.68 million by the end of 2021 according to the loan facility agreement. However the procurement process of 07	2023	Action should be taken to complete the work within the project period.	Balance works to be determining after the debt restructuring process by the government.	Although the project was basically to be completed by September 2023 the project was delayed due to the economic crisis and 04 packages have been completed and handed over to the relevant institutions out of this and they are in progress. Further the

packages valued at Rs. 5,025 million had not been completed.

Southern Multimodal Transport Center (SMTTC) project is also currently in progress. The remaining 07 packages have been temporarily suspended as per the instructions of the government.

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| (c) | Only 05 packages valued at Rs. 2,123 million had been started out of the 12 packages expected to be done under the project, There were only 2 packages had been completed as at 31 December 2022. Packages No. 3 and 4 had been completed in the year 2023 after a delay of 04 to 07 months and mainly due to poor construction supervision and poor planning and design. | 2023-3.1(b) | Correct steps should be taken to expedite the work. | Economic crises, lack of materials and weaknesses in preliminary planning and design consultancy are the main reasons for the delay. | All these 04 packages had been completed and handed over to the relevant institutions. |
| (d) | Although the renovation of the Surapura Open Air Theatre and the Sri Lanka Broadcasting Corporation's open-air theatre were completed, the | 2023 | Instruction should be given to complete the balance works without further delay. | We have already handed over Surapura Open Air Theatre and SLBC Open Air Theatre to respective institutions and | The Surapura Open Air Theatre has been completed and handed over to the North Central Provincial Institute. The open Air Theater of Sri Lanka |

theatres were in unusable condition due to the key equipment and goods (lighting, seating) had not been supplied up to the end of the year under review. Therefore, the expenditure of Rs.332 million which had been incurred for the construction could be a fruitless expenditure in future.

they have taken the control of it and done the necessary work to improve the utilization process. Broadcasting Corporation has been handed over to the relevant institution at the final stage of work and instructions had been given to carry out the remaining works of the project by that institution.

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| <p>(e) A sewage treatment plant had been proposed to construct at Rs. 30 million with a capacity of 35 cubic meters per day and it had been revised and constructed with a capacity of 75 cubic meters per day, as per the request made by the Mayor of the Anuradhapura Municipal Council letter dated 10 February 2022. Further it was observed that variation had been occurred due to non-conducting a proper feasibility</p> | <p>2023</p> | <p>Action should be taken to complete the works according to the work plan.</p> | <p>Actions are being taken to rectify the variations and other technical issues now. The contractors' claims are being evaluated at present</p> | <p>This sewage treatment plant had been completed and is already being operated.</p> |
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study and not considering the request made by the mayor even before starting the work of the project. Therefore, total contract price had been increased up to Rs. 98 million and the Project Director had approved the variation order. Further, the Project Director had approved a variation order of Rs. 138 million for land preparation work, renovation of the existing bus stand, soil protection and environmental works.

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| (f) | A variation order valued at Rs.236.85 million had been included to the project which was not identified at the beginning of the project in addition to the decision of the Empowered Committee for Re-Strategizing and Acceleration of Large-Scale Development Projects (RAMP). | 2023 | Proper approval should be taken. | The project has already re-valued the existing project with Ministry Procurement Committee approval and actions are being taken now to rectify the variations and other technical issues. The contractors claimed are being evaluated | Further construction works of this sub-project are going on by taking the approval of the Ministry Procurement Committee for the relevant variations and resolving the relevant technical issues. |
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at present.

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| <p>(g) An amount of 2023 Rs.45.9 million had been paid to the Irrigation Department as compensation for the relocation of the Irrigation Quarters building under the construction of Northern Multimodal Transport Centre. However, after cancelled this package that amount should be recoverable from the Irrigation Department but it had not been recovered up to end of the year under review.</p> | <p>Action should be taken to recover the compensation.</p> | <p>We will take action to recover the amount, which was paid to the irrigation department in future.</p> | <p>The land where the irrigation quarters are located has been acquired by this project after paying compensation under the construction of the Northern Multimodal Transport Center and currently this land is in possession of the project. This land will be used if the government approves the operation of this Northern Multi-Model Transport Center in future.</p> |
| <p>(h) Although National 2023 Operations Room (NOR) had decided to allocate Rs.2,070 million equivalents to Euro 06 million as a provision for the year 2024 to complete the balance work of Southern Multimodal Transport Centre, an agreement had not been made with the donor in this regard. Further it</p> | <p>Action should be taken to get consent from the donor.</p> | <p>The government has understanding to obtain Euro 6 million to meet allocated Rs.2,070 million after the debt restructuring process with the donor. At present package 06 achieve 38 percent progress had been achieved due to the financial</p> | <p>The French agency (AFD) had been given consent for this but the government had not yet approved the procurement because the debt restructuring process has not been completed.</p> |

was observed that this expenditure would be burden to the Government of Sri Lanka in future. Accordingly, the project had been expended Rs.129 million for the construction from GOSL funds and achieved 38 percent of low physical progress as at 30 April 2024.

constraint and other obstruction face during the past.

- (i) The loan agency 2023 had agreed to fund Rs.8,354.32 million according to the loan agreement made in the year 2016, and the treasury allocation was Rs. 1,671 million. The loan period had been ended on 30 September 2023 only Rs.2,451 million or 24.45 percent had been utilized as at 31 December 2023. As a result, expected out come from 12 packages of the Anuradhapura Pooja City Development Project could not be achieved.

Action should be taken to utilize loan fund effectively.

Project plan activities could not be carry-out according the proper planning manner due to the reason of COVID 19 pandemic global economic crisis, local economic issues and all inflations.

The government approval has not yet been received to carry out the balance sub-projects and the Southern Multimodal Transport Terminal, is currently operational.

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| <p>(j) The Railway Plaza 2023 Development Project under Package 01 had been completed at a value of Rs.98 million and handed over to the Railway Department in the year 2022. However, the cafeteria that was newly constructed had been remained vacant up to 31 December 2023 due to lack of proper maintenance. Therefore, it was observed that the Railway Plaza building could be idled without made a long-run operation and maintenance agreement with the Railway Department.</p> | <p>Action should be taken to made long term agreement with Railway Department.</p> | <p>We will make arrangements to inform to CGR to upgrade the maintenance but the project is properly handed over to Sri Lanka Railway. The Sri Lanka Railway is responsible for maintenance.</p> | <p>The relevant project has been handed over to the Sri Lanka Railway Department, which is the final trustee of the project. They had conducted business units in a proper manner but currently closed. The railway department has been informed in several times about this by the project.</p> |
| <p>(k) The Anuradhapura 2023 Integrated Urban Development Project, which was started in 2016, and expected to completed on 30 September 2023, however only Rs. 2,440 million of the agreed loan amount of Rs. 10,025 million had been utilized up to 31</p> | <p>Action should be taken to get the designs without delay.</p> | <p>Project plan activities could not be carry out according the proper planning manner due to the reason of COVID 19 pandemic global economic crisis, local economic issues and all inflations.</p> | <p>Since the sub-project plans of the project have been discussed with the relevant parties, the submission of the plans was delayed due to the changes of that and new requests from time to time, and all the plans have now been handed over to the project by the</p> |

December 2023.

The delay of 02 ½
years by the
consulting firm to
submit the detailed
design had
adversely affected
to that situation.

consulting
company.

6.2. Support to Colombo Urban Regeneration Project

The project support to Colombo Urban Regeneration which commenced on 22 July 2019, was approved to provide a loan of Rs. 35,163.7 million under the Asian Infrastructure Investment Bank's Loan Agreement No. L – 0081 A, and the Government of Sri Lanka's contribution was Rs. 14,417.2 million. The project was scheduled to be completed on 30 June 2025.

Some important details about the financial status of the project are below for the years 2021, 2022 and 2023 and the Auditor General had given an unqualified opinion to the financial statements of the project for the year 2021 and qualified opinion for the 2 years 2022 and 2023.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total cost of the year			
Government Funds	802	647	1,259
Foreign Funds	3,395	5,361	6,053
Total Assets	6,877	17,961	24,416
Total Liabilities	378	1,387	1,914
Total Funds			
By Foreign Loan	4,325	10,054	42,110
By Domestic Funds	1,241	1,867	9,070

In addition to the facts that led to the presentation of the qualified audit opinion, some important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

Audit Observation	Reference to the year of the audit report	Auditor General's recommendation	Preventive measures taken by the Audited Entity	Current status of recommendation as at date of report.
(a) A sum of Rs. 3,595.55 million had been spent as at 31 December 2023 for Colombage Mawatha Housing Project to construct 624 housing units started at an estimated cost of Rs. 3,595.56 million on 01 June 2020 . Only 80.27 percent progress had been achieved compared to the expected target of 87 percent.	2023	Action Should be taken to achieve the expected target with in the time frame.	Economic crisis was directly affected to the contractor's cash flow.	Physical progress of 94.34 percent was achieved as at 31.08.2024.
(b) The Apple Watta Housing Project, which proposed to build 700 housing units, was initiated at an estimated cost of Rs.4,473 million and was expected to be completed on 17 October 2023, but only 29.33 percent progress had been achieved as at 31 December 2023.	2023	Action Should be taken to achieve the expected target with in the time frame	Poor performance of the selected contractor negatively affected to the project progress	A physical progress of 36.17 percent had been achieved as at 31.08.2024.
(c) The Ferguson Road Housing Project, which will construct 750 houses at an	2023	The scheduled work should begin as planned.	Covid pandemic had been impacted to the	There had been no change in physical

estimated cost of Rs. 4,511 million, was scheduled to be completed on 04 January 2024. But a very low performance of about 12 percent had been achieved as at 31 December 2023.

contractor's
performance.

progress as at
31.08.2024.

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| (d) | <p>It was observed during the physical audit that only the foundation sections and the sections related to lifting the pillars had been constructed for the construction of the 14-storey, 300-unit Obeysekarapura project, and the construction work had been stopped midway on 29 March 2022. The wire and concrete sections used for the construction were deteriorating. As a result, Rs. 296 million incurred up to 29 March 2022 had become a fruitless expenditure.</p> | 2023 | <p>Correct steps should be taken to minimize additional costs.</p> | <p>It will be considered in the re-procurement process.</p> | <p>The procurement process to select a new contractor had been begun.</p> |
| (e) | <p>It was essential to connect the sewerage of the housing projects to the Colombo Municipal Sewerage System. But due to the existing problems in the existing sewerage system, the Colombo Municipal Council had</p> | 2023
3.4 (b) | <p>Action should be taken to achieve project objectives within the project period.</p> | <p>The Colombo Municipal Council proposed to construct a sewage pumping station at the site considering the ground level of the site. A feasibility study</p> | <p>The proposal provided by a contractor for the underground sewerage pipeline and the engineering estimate</p> |

refused to connect the waste of the project to that system. As a result, the State Engineering Corporation had estimated Rs. 2 billion for a new sewerage system as a separate construction for the sewerage of the projects on 12 January 2024. Accordingly, the project had to incur high cost for the work and it should have been planned before the project was started. Furthermore, due to this, the provision of houses to the beneficiaries of the Stadiumgama Housing Project, which has achieved 96 percent performance, had been delayed until 26 June 2026.

had been provided for it conducted by an are higher, it external has been consultant to decided to complete the carry out the sewerage procurement arrangement. The activities for it external through the consultant had project. proposed an ground sewer pipeline for the sewage pumping station.

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| <p>(f) The Cabinet had 2023 decided to reduce the loan amount by USD 70 million due to inefficient use of project funds. As a result, project activities in Phase 3 were suspended and the number of housing beneficiaries had decreased by 1272.</p> | <p>The loan amount must be utilized within the specified period.</p> | <p>Phase 3 of the project was not implemented as a result of the reallocation of funds.</p> | <p>The number of houses expected to be constructed according to the original loan agreement had been decreased due to the restructuring of the project's loan, and as a result, the</p> |
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					number of housing beneficiaries also decreased.
(g)	The original cost estimate for the project was US\$ 42 million, but this was reduced by US\$ 14 million to US\$ 28 million. Furthermore, the private partner contribution for land redevelopment was completely eliminated under the revised agreement.	2023 3.2 (b)	Action should be taken to achieve the objectives of the project.	The Ministry of Health allocated US\$ 70 million, which would have made it possible to obtain US\$ 130 million to complete this project.	US\$ 28 million is scheduled to be returned to this project out of the US\$ 70 million provided to the Ministry of Health,
(h)	It was expected that 111.5 acres of land would be developed by the end of 2022 under 11 land development projects. However, this component had been discontinued as per the Project Change Document dated 13 June 2022. However, the audit could not disclose the measures taken to protect the land and redevelop the infrastructure of the land. Therefore, the project had failed to formulate and implement plans to increase the efficiency of land use through investment in	2023 3.5 (c)	Necessary measures should be taken to prepare and implement plans for land development in accordance with the project implementation manual.	Due to the restructuring of the scope of work and the reduction of the land, land development activities have been reduced under Component 2. At present, this component was limited to consultancy for land improvement only. However, the Project Management Unit is exploring the possibility of fencing and securing the lands proposed to be released after the resettlement of	After the resettlement of the families residing on the identified lands, the necessary steps are to be taken to protect the acquired lands..

affordable housing and land redevelopment in line with the project objectives.

families residing on the lands identified under Component 2. Further, due to the reduction in the scope of Component 1, the land proposed for redevelopment has been reduced to 50 acres.

6.3. Urban Project Preparatory Facility Project

Asian Development Bank Fund under Loan Agreement No. 3706 SRI (COL) for Urban Project Preparation Project started on 06 March 2019 Rs. 883.88 million had been agreed to be given as a loan and the contribution of the Sri Lankan government was Rs. 207.10 million. The project was extended on 01 occasion and planned to be completed on 31 March 2024.

Some important details about the financial status of the project are below for the years 2021, 2022 and 2023 and the Auditor General had given a qualified opinion to the financial statements of the project for the year 2021 and unqualified opinion for the 2 years 2022 and 2023.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total cost of the year			
Government Funds	23.92	1.29	1.40
Foreign Funds	150.87	19.33	15.10
Total Assets	499	523	529
Total Liabilities	1.6	7.5	1.6
Total Funds			
By Foreign Loan	405.68	425.60	437.95
By Domestic Funds	91.99	88.64	89.14

In addition to the facts that led to the presentation of the qualified audit opinion, some important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

Audit Observation	Reference to the year of the audit report	Auditor General's recommendation	Preventive measures taken by the audited Entity	Current status of recommendation as at date of report.
(a) 13 Consultancy reports for traffic transportation and mobility, 04 Consultancy reports for urban upgrading heritage conservation and capacity building and 05 consultancy reports for environmental management service, had been handed over to three private companies for preparing first and final reports. However, the project had not achieved any progress on these consultancy reports.	2023	Action should be taken to obtain the consultancy reports within the time line.	Ministry cannot request to submit the un submitted documents due to cost and time based contracting nature of the consultancy contracts.	Consultation reports are not available.
(b) The project has been re-implemented and started with a different scope under Trincomalee and Dambulla districts which was proposed to be completed by 31 March 2024 after changing the previous scope of the project. But the completion	2023	The work should be completed within the stipulated period.	Asian Development Bank had been requested to extend the time from 31.03.2024 to 31.12.2024 to complete the remaining work.	No extension of time is granted.

of the project activities under the extension of the project due to the low level of achievement of the goals was a problematic situation as at 31 December 2023 .

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| <p>(c) Although project 2023 activities had to be completed by 31 March 2024, 10 activities had not been commenced up to 31 December 2023.</p> | <p>Work should be completed according to the work plan.</p> | <p>Detailed designs are being planned.</p> | <p>Since no extension of time has been given till 31 December 2024, the said activities have not been started.</p> |
| <p>(d) The cities of 2023 Dambulla, Trincomalee, Kurunegala and Ratnapura have been selected for this project and for that, Rs. 418.29 million had been spent under component 3 from 2019 up to 31 December 2022. After suspending the project in the year 2020 and extending the project period till 31 March 2024, the scope was changed and priority was given only to Trincomalee and Dambulla districts. Therefore, the total amount spent by the</p> | <p>Attention should be given to plan spending only for activities related to the project.</p> | <p>As per the instructions of the Ministry of Finance, while reactivating the project, the focus has been on the development of tourism facilities and tourism infrastructure in Trincomalee and Dambulla areas. It was stated that the Ministry should adhere to the policy decision taken by the Government of Sri Lanka.</p> | <p>The focus is on the development of tourism facilities and tourism infrastructure in Trincomalee and Dambulla areas.</p> |

project up to now
for those districts
was fruitless.

07. Irrigation Sector

7.1. Mahaweli Water Security Investment Program - Phase 1

It had been agreed to provide a loan of Rs. 10,407 million under Loan Agreement No. 3268-SRI and Rs. 10,688 million under Loan Agreement No. 3267-SRI by the Asian Development Bank for the Mahaweli Water Security Investment Program - Phase 1, which was initiated in the year 2015. The project was scheduled to be completed on 25 July 2025.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below and the Auditor General had given an unqualified opinion on the project's financial statements for the years 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs. Mn	Rs. Mn	Rs. Mn
Total expenditure for the year			
Government Funds	686	623	2,515
Foreign Funds	3,550	2,611	21,930
Total Assets	26,015	45,502	53,706
Total Liabilities	1,916	846	5,113
Total Funds			
From Foreign loans	18,645	19,237	39,168
From Local loans	4,479	5,102	6,588

In addition, several important audit observations arose from the audit reports submitted for the last 3 years related to the project are as follows.

Audit Observation	Year the Report	of Auditor General's Recommendation	Preventive measures taken by the institution	Implementation status of the recommendation as of the 30 September 2024
(a) Technical Assistant of the project appointed by the Asian Development Bank later joined the service of the consulting company of the Programme and has been working as the Team Leader & Chief Design Engineer for a period of 07 years. He was being paid a monthly salary of 26,000 Euros (Rs. 8.5 million) for that, and by June 2023 he was paid Rs. 702.18 million as salaries. By deploying a person who assisted in the programme preparation tasks on behalf of the Asian Development Bank, in the consultancy firm of the programme, the independence of programme supervision had been challenged. It was also contrary to get the services of this consultant in	2023	Programme Supervision should be independent and recruitments should be in line with ADB guidelines.	Procurement process of the consultant had been carried out by the Ministry and ADB. Therefore, the Procurement should be in line with ADB guidelines. The payments for the consultancy team are paid in line with the Consultancy Agreement.	The guidelines on the use of consultants in the program were not carried out in accordance with approved specifications, which had challenged the independence of program oversight.

terms of Paragraph 1.11 of the “Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers” issued by the Asian Development Bank in 2013.

- (b) Although the 2023 consultancy fees 2022 are to be paid based on the performance of the contracts since it can be determined on the scope, output and the length of the services in the proposed construction contracts, a consultancy contract agreement worth US\$22.09 million for a period of 60 months from 16 November 2015 had been entered with the consultant of the programme for payment on the time basis. Due to the project duration had been extended since the delay in the construction work of the Project, the
- Steps should be taken Consultancy fees paid based on the agreement and Disciplinary actions taken against the officials of the project who responsible for paying the consultancy fees by using the money that allocated for other constructions by submitting the Cabinet papers.
- This consultancy agreement contains,
- Task dependent lump-sum payments
 - Time dependent time based payments depending on the nature of services required from the consultant.
- The time based services are obviously sensitive to the “time for completion” of construction contacts hence had to be extend until construction contracts are completed. Original allocation for Consultancy Services was
- The consultancy fees had been paid using funds allocated for other construction projects instead of paying consultancy fees based on the performance of the contract agreement.

contract USD 22.09 million for agreement of consultancy had been extended on Tranche 1 and 06 occasions up to 60 months' period only. 30 June 2024 and the cost had increased to US\$ 41.56 million by having to pay consultancy fees on the basis of this extended time period. As only US\$ 26 million had been allocated to pay consultancy fees for Tranche 1 and 2 by the Asian Development Bank, the exceeded consultancy fees had to be paid from the allocations for other expenses.

(c) At the beginning 2023 of the Project, 34 foreigners were recruited for consultancy works and at present 8 foreigners were working. A foreigner was being paid a salary ranging from 16,000 to 26,000 Euros equal to from Rs.5.5 million to Rs. 9 million per month

(i) Steps should be taken not to pay subsistence allowances to people who have been working at a certain place for a long time and are getting monthly salary.
(ii) Should be made arrangements to complete the project soon

The payments for the Consultancy Services are paid in line with the Consultancy Agreement. Subsistence allowances had been paid to individuals working at a permanent workplace and receiving monthly salaries.

and subsistence allowances ranging from 70 to 110 Euros per day. Salaries of 12,843,998 Euros equal to Rs.4,341 million and subsistence allowances of 1,068,599 Euros equal to Rs.361.18 million had been paid to these foreigners by 30 June 2023.

and reduce the expenses for consultancy.

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| <p>(d) The foreign 2023 consultancy 2022 company had recruited 161 local employees through its 02 affiliated local companies and 110 of them were working by now. In addition to these staff, consultancy fees were being paid on a time basis for a staff of 48 working in the Colombo project office and 08 working in worksite offices located in the contract areas.</p> | <p>(i) Since the relevant authorities are responsible for not to prepare a system that minimizes the cost of consultation from the beginning, suitable actions should be taken against them.</p> <p>(ii) Should be made arrangements to complete the project soon and reduce the expenses for consultancy.</p> | <p>Not agreed. As of June 2023, 34 Colombo office staff members and 117 field staff members were paid on a time-based basis.</p> | <p>Staff were paid consulting fees based on time.</p> |
| <p>(e) In accordance with 2023 paragraphs 1.11 (b) and (c) of the</p> | <p>These informal methods of selecting</p> | <p>These two assignments have been</p> | <p>The consulting company that prepared the design plans and</p> |

“Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers” issued by Asian Development Bank in 2013, the company or companies selected for the consultancy contract shall not undertake other contracts in relation to the relevant project. Those companies should not be re-appointed for consultancy if they have been done earlier and people who have family and business relations with the employees of the Asian Development Bank and Ministry of Irrigation should also not contribute to the consultancy. However, Infotech IDEAS Company had received an amount of Rs.102.98 million through the Mahaweli Consultancy Bureau Company for preparing the design plans, environmental assessment reports, feasibility study

consultants, carried out in conducted the contrary to the two different environmental Asian Development Bank's timeline, consulting contract guidelines, therefore could had been reappointed should be as mutually been made contrary to stopped exclusive. accepted guidelines. immediately and • The the guidelines selection of issued by the consultant had Asian Development Ministry with the Bank should be ADB. followed.

reports and modification reports for the construction of North Central and North Western Canals and Minipe Canal Rehabilitation projects in this program since 2015. Further, it has been working as the Sri Lanka representative company of Tractable, which was the main consultant of this program, the main staff of this company consisted of retired officers from the borrower's Ministry of Irrigation and its subordinate institutions.

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| <p>(f) A sum of Rs. 2023 41.59 million, Rs. 18.32 million and Rs. 7.4 million had been paid respectively for the construction of the contractor's consulting company and the consulting company's canteen as temporary camps using Amano</p> | <p>The temporary buildings taken over should be assessed by an independent party and if any overpayment, should be recovered from the contractor.</p> | <p>In the event of removal as per the provisions of the contract, the Contractor shall remove all such temporary facilities along with fixtures and fittings as part of the renovation.</p> | <p>The temporary buildings of the consultants and consulting companies had not been assessed and accepted by an independent party or used for a need in the area.</p> |
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sheets and the buildings had been handed over to the project after the contract was cancelled.

However, all the air conditioners installed in the camp used by the contractor had been removed and handed over.

7.2. Mahaweli Water Security Investment Program - Phase 2

It had been agreed to provide a loan of Rs. 28,239 million under Loan Agreement No. 3625-SRI and Rs. 4,891 million under Loan Agreement No. 3626-SRI by the Asian Development Bank for the Mahaweli Water Security Investment Program - Phase 2 and the contribution of the Government of Sri Lanka was Rs. 5,048 million., which was initiated in the year 2015. The project was scheduled to be completed on 25 July 2025.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below and the Auditor General had given an unqualified opinion on the project's financial statements for the years 2021, 2022 and 2023

Year	2021	2022	2023
	Rs. Mn	Rs. Mn	Rs. Mn
Total expenditure for the year			
Government Funds	552	548	2,513
Foreign Funds	10,064	30,938	21,930
Total Assets	20,999	68,124	69,280
Total Liabilities	3,129	2,379	2,582
Total Funds			
From Foreign loans From	16,143	63,581	39,168
Local loans	1,617	2,165	6,588

In addition, several important audit observations arising from the audit reports submitted for the last 3 years related to the project are shown below.

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive measures taken by the institution	Implementation status of the recommendation as of the 30 September 2024
(a) The construction of the North Central Provincial Canal to divert water to the Mahakanadara Reservoir and thereby supply drinking water to the Rambewa and Medawachchiya areas, was initiated with an estimated provision of Rs. 11,515 million, by obtaining a loan from the Japan International Cooperation Agency and funds from the Government of Sri Lanka, and the work on it was nearing completion. However, due to the failure of the North Central Provincial Canal Project to be implemented within the stipulated time, this drinking water project remained un-implementable until the water from this project was received into the Mahakanadara	2023	Steps should be taken to identify the priority task and complete the project within the stipulated time frame.	Agree.	The North Central Provincial Canal Project has not been completed.

Reservoir.

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| (b) | By the end of the program in 2025, it is currently planned to complete only the 27.7 km long tunnel canal of the North Central Provincial Canal, which runs for 96 km from Moragahakanda Reservoir to Kanadara Oya. As a result, a specific plan had not been submitted by the date of audit to construct the remaining 68.3 km of canal and reap the benefits of the entire project. | 2023 | A specific plan should be prepared for the remaining work and the construction work should be completed within the specified time frame. | All documents are ready for the procurement of the remaining contract packages. In any case, these can be procured and awarded once the funds are available. The Department of External Resources is in discussions with various international funding agencies to arrange the financial arrangements. | The necessary funds have not been secured and accordingly there is no specific plan to complete the remaining work. |
| (c) | Under the Local Agricultural Crop Improvement Project, a sub-project to supply and install 50 Poly Tunnel units for the local production of hybrid chilli seeds to farmers in 5 Mahaweli zones and Hurulu Wewa areas was implemented at a contract value of Rs. 91.57 million. The contractor selected for this had | 2023 | A proper plan should be obtained and monitoring should be done to ensure completion of the relevant work by the extended date. | Any delay beyond the latest completion date (31 May 2024) will be considered as per the contract. | Not completed as planned. |

no prior experience in constructing Poly Tunnels and was a company with weak financial strength, having incurred losses during 2018-2020 and only made a profit in 2021. Although the contract required completion by 15 May 2023, the deadline was extended three times to 31 May 2024, and only 42 Poly Tunnels had been installed by 30 April 2024.

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| (d) | The Kaluganga-Moragahakanda Tunnel Construction Contract, which had been awarded in 2018 at a value of Rs. 7,146.91 million under the program, had to be completed on 10 September 2021, but was extended until 21 December 2023 due to the inability to complete it within the stipulated time. However, the construction progress was 90 percent on that date, and although | 2023
2022
2021 | Action should be taken to investigate the reasons for the delay in the contract and a reasonable time should be given for completion. | A further extension until August 31, 2024 has been recommended by the Standing Procurement Committee appointed by the Cabinet and is pending approval by the Cabinet. | Not completed as planned. |
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it was estimated that the contract would be completed by 31 May 2024, no extensions had been granted after 21 December 2023.

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| (e) | <p>During the 2023 construction of the 2022 North Central Province Canal, the Department of Wildlife Conservation had informed that the construction of the canal in the Minneriya Giritale Nature Reserve, Sigiriya Sanctuary, Minneriya National Park and Hurulu Wewa Reserve should be constructed using Cut & Cover, Double Conduit or Tunnel methods only from within the ground. However, without taking action in accordance with this, the project had been chosen the method of excavating and conveying water through the tunnel using 02 tunnel drilling machines, which was a costly</p> | <p>Proper technical and effective methods must be implemented.</p> | <p>Disagree. During the Planning, designing, and implementation stages of the NCPCP Canal, all possible measures have been taken to accommodate the status of the Environmental Impact Assessment by completing technically appropriate, nationally effective and environmentally minimal impact methods. Accordingly, most areas were covered by a cut and cover dual pipeline and tunnel.</p> | <p>The technically and cost-effective method had not been selected.</p> |
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method, denoting it as the technically appropriate, nationally effective, and environmentally least impactful method.

- (f) The consulting company had estimated a cost of Rs.7,255.40 million for the manufacture, import, transportation to the work site and installation of a tunnel drilling machine. The contractor had submitted a price of Rs. 6,690.97 million for it and according to the invoice submitted to the project when importing the 02 machines, the CIF values of the 02 machines were Rs.2,147.97 million equivalent to USD 10,581,673 and Rs.3,523.61 million equivalent to USD 9,476,342 respectively. Accordingly, the consulting company had prepared an overestimate for this item without
- 2023
- Estimates should be prepared and reviewed considering all relevant sources and factors.
- Estimated value and CIF value cannot be compared. The value of the engineering estimate covers the expected CIF value of the product, all taxes associated with the import of machinery and equipment, handling charges, transportation from the port to the job site, installation assembly, launch and commissioning from + to - points.
- All relevant factors had not been considered when preparing the estimates.

obtaining confirmation of the value of the machine when preparing the quantity sheets.

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| (g) | <p>Although the full 2023 amount of Rs.6,690.97 million had been paid to the contractor for importing the 1st tunnel drilling machine from China, transporting it to the work site and installing it, the cost of the tunnel boring machine by the time it was released from the Trincomalee port had been Rs.2,155.97 million.</p> <p>Accordingly, the payment of Rs. 4,535 million or 68 percent of the cost for transporting the machine from Trincomalee to Namalpura and assembling it and the contractor's profit had led to controversy during the audit.</p> | <p>Costs should be investigated and steps should be taken to recover any overpayments.</p> | <ul style="list-style-type: none"> • The competitive bidding procurement procedure has been followed in this contract. • The contract was awarded to the lowest bidder who responded in substance through Cabinet approval. • The rate quoted for one-time items (3.4.1.1) is the competitive price quoted by the bidder. • Payments have been made in accordance with the provisions of the contract. | <p>The matters pointed out by the audit had not been addressed.</p> |
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- (h) A total amount of 2023 Rs.6,690.97 million had been agreed to be paid to the contractor for import the 2nd Tunnel Drilling Machine from China and to transport to the work site and install, and out of which a sum of Rs.6,021.87 million had been paid by 15 March 2024. The cost of the tunnel boring machine at the time of its release from the Trincomalee Port was Rs. 3,635.61 million. Accordingly, the payment of Rs. 3,055.36 million or 46 percent of the cost for transporting the machine from Trincomalee to Konduruwa and assembling it and the contractor's profit had led to controversy during the audit.
- Costs should be investigated and steps should be taken to recover any overpayments.
- The response given above should be considered.
- The matters pointed out by the audit had not been addressed.

- (i) Due to the delay of 2023
2 ½ years in 2022
awarding the
contract, the
completion date of
the contract was
extended to 10
March 2027 and in
order to expedite
the project to
complete the
contract in June
2025, it was
decided to deploy a
02nd Tunnel
Drilling Machine to
construct the 10.4
km stretch of the
tunnel, which was
scheduled to be
constructed under
the Drill & Blasting
method. At that
time, the Technical
Evaluation
Committee
appointed by the
Director General of
the Department of
Public Finance had
not recommended
the deployment of a
02nd Tunnel
Drilling Machine.
Subsequently, the
Secretary to the
Ministry had
appointed a Special
Technical
Evaluation
Committee and that
committee had also
recommended that
the feasibility of the
- When this
purchase was not
recommended by
two technical
evaluation
committees, the
parties who
appointed a special
technical
evaluation
committee and
obtained
recommendations
and imported this
tunnel boring
machine at a
higher price are
responsible for
this.
Therefore, action
should be taken
against that party
and all matters
related to the
purchase should be
informed to the
Cabinet.
- Revised contract
period with 2
TBM machines. (8
June 2025)
• The procurement
process was
temporarily halted
for 2½ years to
further review the
experience on
water access of the
Uma Oya project,
which is similar in
nature to this
project,.
The Cabinet has
given the
necessary approval
after considering
the merits of
deploying a second
TBM for the
project, with the
recommendation
of the Engineer
and the
concurrence of the
Asian
Development
Bank. High
emphasis is placed
on the need to
complete the
construction work
within the time
frame available for
the Asian
Development
Bank Financing
(MFF).
- Action had not been
taken as indicated
by the audit.

proposal was questionable and that additional investment in the contract could not be justified. The decision of that committee also had not been accepted and a recommendation had been obtained from a re-appointed Special Technical Evaluation Committee to deploy a 2nd Tunnel Drilling Machine. The Cabinet had not been informed in this regard in the Cabinet paper submitted on 14 October 2021.

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| (j) | According to the 2023 work estimate, Rs. 179.99 million had been entered in the bill of quantities for the removal and transportation of the 2 drilling machines to the port at the end of the contract. There, it had not been agreed in the agreements to assess and recover a sufficient amount from the cost paid for the 2 machines worth Rs.13,381.94 | At the end of the contract, upon re-export of the 02 machines, their value should be assessed and a reasonable amount should be charged from the contractor, and the relevant clauses in the contract agreement should be amended for this purpose. | All these actions are in accordance with the Employer's requirements in the bid document submitted by the bidders. The amount paid for the machines is the one-time fee agreed in the contract. | Action had not been taken as indicated by the audit. |
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million and it had been agreed to take the 2 machines out of the country without any charge.

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| (k) | <p>The Geological Survey and Mines Bureau had not yet granted permission to excavate the 3rd tunnel of the canal using a tunnel drilling machine. However, a distance of 5.77 km had been excavated using the 1st tunnel drilling machine using the currently valid excavation permit.</p> | 2023
2022 | <p>The mining permit must be obtained from the GSMB.</p> | <p>The need for a permit from the GSMB has not been mentioned even in the Environmental Impact Assessment Report. Even during the project meeting, officials from the GSMB were present, but none of them raised the need for such a permit. Although the Project Director has inquired in writing from the GSMB about the requirement, no response has been received so far.</p> | <p>The relevant mining permits had not been obtained.</p> |
| (l) | <p>In order to install concrete rings in weak rock areas of the tunnel, an estimated cost of Rs. 2,892.3 million was estimated for the preparation of the rings, Rs. 928.72 million and Rs. 149.82 million were estimated for the construction of</p> | 2023 | <p>Steps must be taken to correct this problem.</p> | <p>Although the values given here are not compared with the relevant BOQ items or site reports of identified cracks, the incident is accepted as having occurred. The Engineer and Contractor's experts have been</p> | <p>No measures have been taken to address the cracking and spalling of concrete rings.</p> |

a ring preparation factory and a warehouse, respectively.

Accordingly, out of the 2,967 concrete rings manufactured in this factory and installed in the tunnel as of 31 January 2024, 1,298 rings, or 44 percent, were identified as having burst at various locations.

engaged in identifying the causes and corrective measures in accordance with internationally accepted standards. The Employer has also paid close attention to the on-going remedial actions.

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| (m) | <p>The progress of the 27.7 km long tunnel canal excavation contract was 21 percent as of 31 December 2023. Although Rs.3,001.79 million had been allocated to pay for price variations in the contract, Rs.5,131.24 million had been spent as of 30 June 2023. Accordingly, Rs.2,129.45 million had been overpaid without the approval of the Cabinet.</p> | 2023 | Cabinet approval must be obtained for additional payments. | <p>The normal practice is to revise the contract price once the total cost is recorded when it exceeds the accepted contract price previously approved by the Cabinet. This situation has not yet arisen in this contract.</p> | <p>The necessary cabinet approval had not been obtained to pay for price fluctuations.</p> |
| (n) | <p>When a stock of fertilizer purchased in 2022 under the program was delivered to 02</p> | 2023
2022 | <p>Prompt action should be taken to recover the loss from the relevant responsible parties</p> | <p>An investigation into this issue has been initiated. This information will be disclosed as a</p> | <p>The problem of fertilizer shortage has not been resolved.</p> |

fertilizer companies under the Ministry of Agriculture, there was a shortage of 161.5 metric tons (3,230 bags) of fertilizer worth Rs. 55.23 million.

and the loss should be disclosed in the financial statements. "note" in the financial statements by 2024.

- (o) Due to 2023 underutilization of 2022 funds allocated for the period 2018 to 2023, a commitment fee of Rs. 229.23 million has been paid for the project as of 31 December 2023.
- The reasons for the negligence should be investigated and activities should be carried out according to the plan.
- The project's progress was slowed down for various reasons.
- The unplanned project's commitment fees had not been investigated.
- (p) The Mahakithula Inlet Tunnel, 2022 Mahakithula and Mahakirula Reservoirs and the Mahakirula Feeder Canal under the North Western Province Maha Ela Project had been awarded to a foreign company for completion by 2024 at a cost of Rs. 9,978 million. However, the construction progress over the 2-year period was at a very low level of 2.97 percent. This was mainly due to the lack of proper
- i) Selection of a new contractor as per the guidelines of the Asian Development Bank
- The contract was terminated on 11 May 2023. The advance payment has been fully recovered.
- The new contract had not been awarded.
- (ii) Contractor should be blacklisted
- (iii) A sum of Rs.459.18 million and US\$ 3.021 million should be collected for performance certificates.

staff, inadequate construction equipment and poor site management. In response to this unsatisfactory situation, steps were being taken to terminate the contract. However, Rs. 1,197 million had already been paid to the contractor and Rs. 355 million for completed works.

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| (q) | Out of the 9 2022 contract packages planned for part 03, a contractor for 6 contract packages was selected from the allocations received under part 2 for an amount of Rs.1.7 million. However, since the necessary loan allocations had not been provided for the implementation of part 3, the contracts could not be implemented and the expenditure incurred under part 2 had to be used for procurement activities. | 2021 | Necessary action should be taken against the officials who initiated the procurement procedure in Part 3 without financial provisions. | The required funds and additional funds under Part 3 were not received as expected, due to the pandemic situation prevailing in the country during the period 2021-2022, which was beyond our control. Therefore, the costs incurred for the procurement process could not be avoided. | The necessary loan provisions have not been received. |
| (r) | The advisory services of the Integrated Water | 2021 | Steps should be taken without delay to implement | After several rounds of discussions with | The project had not implemented consultancy |

Resources Management Project, which was planned to be implemented during 2019-2020, had not been implemented as of 31 December 2021, and the project had not been included in the 2021 Action Plan.	the advisory services within the relevant time frame.	related parties and the lending institution, the draft criteria have now been finalized, and the procurement is expected to be completed by the end of 2022. The study will be completed by the end of 2024.
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7.3 Integrated Watershed and Water Resource Management Project

The World Bank's International Development Association had agreed to provide a loan of Rs.13,159 million under Loan Agreement No. 6621-LK and Loan Agreement No. 6619-LK for the Integrated Watershed and Water Resources Management Project, which was initiated in 2021, and the Government of Sri Lanka's contribution was Rs. 145 million. The project was scheduled to be completed on 31 October 2025.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below and the Auditor General had given an unqualified opinion on the project's financial statements for the 3 years of 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs. Mn	Rs. Mn	Rs. Mn
Total expenditure for the			
year			
Government	4	2	1
Funds	305	489	2,453
Foreign Funds			
Total Assets	688	3,480	5,395
Total Liabilities	1	28	142
Total Funds			
From Foreign loans	305	872	3,332
From Local loans	4	6	7

In addition, several important audit observations arose from the audit reports submitted for the last 3 years regarding the project are as follows.

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive measures taken by the institution	Implementation status of the recommendation as of the 30 September 2024
(a) A contract valued at Rs. 532.85 million (excluding tax) was awarded on 28 December 2022 for the providing Rip-Rap Protection to Ampara Senanayake Samudraya Bund and Improvement to Bund Road belonging to Irrigation Department. It had been advertised in the media that low-quality granite was used in the preparation of the Rip-Rap and high-quality granite was applied on its surface. In this regard, the project had conducted an investigation and it was found that 282 cubes of two types of granite that had been transported to the work site for preparing the Rip-Rap were substandard and the contractor was asked to remove them from the work site and steps were taken	2023	Sound & efficient procurement management system need to be implemented on monitoring & supervision of the procurement works carried out by the PMU.	When the site was inspected by the Regional Irrigation Engineer of Ampara on 07 July 2023, the contractor was instructed not to lay the filter layer material, numbered 5, which had been piled on the dam due to concerns about its quality, until the quality inspection reports were issued.	A practical program had not been introduced to identify and eliminate the use of substandard granite and ensure that it conforms to the prescribed standards.

to remove the non-standard stones used for the Rip-Rap and repair them again. Officers of Irrigation had also identified that the contractor had used substandard granite at some places in Rip-Rap.

(b) A tax-free a contract was awarded for an amount of Rs. 40.02 million for the improvement of the Arawatta tank embankment belonging to the irrigation department and the contract was to be completed on 31 December 2022. However, this contract was extended on 03 occasions till 30 April 2024, and the construction progress was 84 percent at the end of the year under review. Due to extension of contract period Rs. 19.71 million had to be paid more for price variations.	2023 2022	Sound & efficient procurement management system need to be implemented on monitoring & supervision of the procurement works carried out by the PMU	The allocated funds for price contingencies were insufficient, so an additional Rs. 21.58 million was approved by the Secretary of the Ministry of Irrigation. As a result, the revised estimate is now Rs. 61.60 million, and payments have been made accordingly.	An efficient procurement management system had not been implemented to evaluate the extension of contract period and price changes.
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(c) A sum of Rs. 805 million was allocated for install two permanent weight-lifting machines for the Polgolla and Udawalawa reservoirs belonging to the Mahaweli Authority. Seven months after the tender was called for this purpose, on 8 April 2022, two contracts totaling Rs. 797.61 million were offered. However, the contractor was unwilling to execute the contract at the previously offered price due to the depreciation of rupee, which resulted in higher costs for imported raw materials. The contractor later agreed to complete the project for Rs.1,248.37 million. Consequently, it was agreed to pay Rs. 450.76 million more than the previous price. By the end of 2023, the construction progress of the heavy lifting machine for the Udawalawa	2023 2022	Before proposing a project the priority of the proposal should be highly considered.	Due to the country's foreign exchange shortage, the contractor requested payment in US dollars for importing construction materials. A method was established for this, subject to World Bank approval, through the IWWRMP Project. Because of the sharp rupee devaluation, price contingencies were calculated based on the Construction Industry Development Authority (CIDA) indicators. The contracts were adjusted to account for these price contingencies, with a 10% contingency set aside for the dollar	Although it has been stated that the physical progress of the two projects has exceeded 95 per cent, an analysis had not been conducted on project priority, feasibility, and the adequacy of funds, etc.
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Reservoir was at 33 percent, while the construction progress for the Polgolla Reservoir was at 37 percent

component.

- (d) A contract was awarded to a foreign company for an amount of USD 1,749,791.18 (Rs. 629.92 million) to install an automatic geodetic measurement system for monitoring the movements of Kothmale and Randenigala reservoir dams in the year 2022. Contract was awarded After 11 months quoting the contract the price was called and the contract was canceled by the Mahaweli Authority on 24 February 2023 as the contractor did not accept the contract at the original price and this contract had not been awarded in this year also.

A new contractor Bids were should be selected invited for the to implement the installation of an contract as soon automatic as possible in geodetic accordance with measurement World Bank system to monitor the Kotmale and Randenigala reservoir dams. The contract was awarded on 8 August 2022 for a value of USD 1,749,791.18. However, due to Sri Lanka's economic challenges, the contractor was unwilling to proceed at the agreed prices. Consequently, the contract was canceled on 24 February 2023.

- (e) According to Cabinet approval, USD 10 million (Rs. 3,000 million), Sound efficient procurement management and The World Bank has approved Rs. 29.50 million A sound and efficient procurement management

originally allocated for the project, was spent on small and medium-scale irrigation rehabilitation works under the Mahaweli, Northern, and Eastern Provincial Irrigation Departments. Under this program, the World Bank approved 659 irrigation rehabilitation projects worth Rs. 2,235 million, however only activities of 493 projects had commenced.

system need to be implemented on monitoring and supervision of the procurement works carried out by the PMU

for 861 projects to be carried out by community-based organizations, utilizing 10 million USD. In addition, approval has been granted for 12 projects under the force account methodology, 10 projects under the shopping methodology, and 9 projects under the national competitive bidding methodology.

Out of the awarded projects, 685 have been initiated, payments totaling Rs. 1,200 million have already been made, and 300 projects have been completed to date.

system should be implemented to monitor and supervision of procurement activities.

(f) A contract valued at Rs. 221.99 million was awarded during the year under review to the

2023

Establish guidelines for outsourcing decisions, including cost-

It was inquired whether a similar Water Resources Management

Establish guidelines for outsourcing decisions, including a cost-

International Water Management Institute for the preparation of a water resource management plan for the upper Mahaweli catchment areas, covering 3,100 square kilometers and including the Kothmale, Victoria, Randenigala, and Rantambe Reservoirs. The Mahaweli Authority and the Irrigation Department were involved in preparing reports for this project. However, these tasks, which were supposed to be completed by the staff of those institutions, were outsourced to an external party at a significant cost.

benefit analysis. Outsourcing should only occur when it brings significant value or where specialized expertise is required that cannot be developed internally in a reasonable timeframe.

Plan for the benefit analysis, and outsource only when specific expertise is needed that cannot be developed internally. Upper Mahaweli Watershed areas had been prepared by these institutions prior to this instance, as indicated in the note sent by the Secretary to the Ministry to the Additional Secretary (Sri Lanka Mahaweli Authority and Irrigation Department). It was reported that the aforementioned institutions have not previously developed water resources management plans of this nature and that they lack prior experience in this regard.

7.4 Multi-phase Climate Change Mitigation Program Access Project

The International Bank for Reconstruction and Development had agreed to provide a loan of Rs. 27,600 million under Loan Agreement No. 8996 for the Multi-Phase Climate Change Mitigation Access Project, which was initiated in September 2021 and the Government of Sri Lanka had contributed Rs.300 million. The project was scheduled to be completed on 31 December 2026.

Some important information about the financial position of the project for the years 2022 and 2023 is shown below. The Auditor General had given an unqualified opinion on the financial statements of the project for the years 2022 and 2023

Year	2022	2023
	Rs. million	Rs. million
Total expenditure of the year		
Government Funds		
Foreign Funds		
Total assets	381	1,560
Total liabilities	214	753
Total Funds		
Through foreign loans		
Through local funds		

Additionally, several important audit observations arising from the audit reports submitted for the last 2 years regarding the project were as follows.

Audit Observation	Year of the report	Recommendation of the Auditor General	Preventive measures taken by the auditee institution	Implementation status of the recommendation as of the date of the report
(a) Actions had not been taken to disclose the Commitment Charges	2023	Commitment charges and loan interest should be	Necessary instructions had been given to	Commitment charges and loan interest had not

of Rs. 72 million and Loan Interest of Rs. 33 million charged by the International Development

Association during the year under review in the financial statements. As a result, the project cost stated in the financial statements was understated by Rs. 105 million.

counted as project expenses.

the relevant officials for corrections in the future. taken as project expenses.

- (b) Although the project 2022 should establish a 2023 National Project Oversight Committee within a period of not less than three months from the date of implementation of the project, as per Section 1 of Schedule 2 of the Loan Agreement bearing LK 8996, the above requirement had not been complied with even though the project had commenced on 12 October 2021.

Actions should be taken to establish and implement a national Project Oversight Committee in accordance with the terms of the loan agreement.

Actions already had been taken to establish the project a National Project Oversight Committee.

Although the National Project Oversight Committee had been established, any meetings had not been held.

- (c). Although the financial 2023 performance of the project at the end of the year under review had been stated in the financial statements as Rs. 601.2 million, it had not been included an advance of Rs. 97.19 million given to the Irrigation Department, which is the

Necessary actions should be taken to complete the relevant project work within the relevant period and to settle the advances promptly.

The District Irrigation Officers had been informed to provide necessary instructions and take measures to prevent delays in the payment of advances.

Advance payments should not be included in the calculation of the financial performance of the project.

implementing agency of the project, under the 5th component of the project.

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|-----|--|--------------|---|--|--|
| (d) | Although Rs. 2,025 million had been allocated for the project under the annual estimate for the year 2023, only Rs. 601.2 million (29.69%) had been utilized. Due to lack of proper attention to complete the planned activities within the planned period, 70.31 percent of the allocations had not been utilized during the year under review. | 2022
2023 | Action should be taken to complete all activities under each component as planned and to utilize funds properly within the stipulated time frame. | Necessary instructions had been given to the relevant officers to expedite the procurement process to expedite the project work. The progress of the procurement process had been reviewed weekly with the World Bank representatives. | The planned work should be completed within the scheduled time frame. |
| (e) | Although US\$92 million had been allocated to implement the project over a 5-year period, only US\$2.23 million, or 2.5 percent of the allocation, had been used for the project in the past two years. | 2023 | Actions should be taken to complete the Project activities within the project period. | Necessary instructions had been given to the relevant officers to expedite the procurement process to expedite the project work. The progress of the procurement process had been reviewed weekly. | Actions should be taken to utilize the funds allocated for project activities to the maximum extent possible during the relevant project period. |
| (f) | Although the project had received Rs. 1,364 million from the International Bank for Reconstruction and | 2022
2023 | Funds provided for project activities should be directed to achieving the | Action had not been taken in that regard. | Funds should be used economically to achieve the project objective. |

Development (IBRD) as of 31 December 2023, only Rs. 676 million had been spent during the year. As a result, Rs. 784 million had been remained idle in the account for 7 months without being used.

project's objective in economic ways.

7.5 Climate Resilient Integrated Water Management Project (CRIWMP)

A sum of Rs. 5,499.71 million had been agreed to give for the Water Supply and Sanitation Improvement Project, which commenced on 1 July 2017, was funded by the Green Climate Fund (GCF) and the United Nations Development Programme (UNDP) under a grant agreement signed on 5 August 2016 and the contribution of Government of Sri Lanka was Rs. 2021.74 million. The project had been scheduled to be completed on 28 December 2024, with a one-year extension.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below. The Auditor General had expressed disclaimer of opinion on the financial statements of the project for the years 2021, 2022 and 2022.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expenditure of the year			
Government Funds	702	387	365
Foreign Funds	901	872	2,030
Total assets	2,251	2,997	5,268
Total liabilities	33	42	51
Total funds			
Through foreign grants	358	2,864	1,455
Through local funds	800	400	625

In addition to the reasons for expressing a disclaimer of opinion, several important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

	Audit Observation	Year of the report	Recommendation of the Auditor General	Preventive measures taken by the institution	Implementation status of the recommendation as of the date of the report
(a)	<p>Although the Green Climate Fund has provided Rs. 8,106 million equivalent to US\$ 34.44 million to the United Nations Development Programme (UNDP) over the past 7 years, only Rs. 3,198.12 million equivalent to US\$ 12.99 million had been provided to the Ministry of Mahaweli Development and Environment (MMDE) as of 31 December 2023 and Rs. 3,198.12 million equivalent to US\$ 14.91 million had been spent by UNDP on several activities of the project. The remaining Rs. 1,618 million equivalent to US\$ 6.55 million had been retained by UNDP. Accordingly, the financial statements</p>	2021 2022 2023	<p>The funding agency should channel the funds through the Central Bank and use them for the project activities and account them.</p>	<p>According to a notification issued by the Ministry of Finance to UNDP, which acts as the accreditation institution for this project, all funds received from the GCF (Green Climate Fund) for the project should be remitted to the Treasury. Accordingly, from 2023 onwards, only 90 percent of the funds received from the GCF had been transferred to the Treasury.</p>	<p>The facts in the recommendations have not been implemented to date.</p>

had been prepared. Since the amount was provided only for the Ministry of Mahaweli Development and Environment (MMDE), the implementing agency, which represented 30 percent of the total appropriation and therefore it did not reflect the financial performance and financial position of the entire project. Accordingly, the audit work was limited to the activities carried out by the (MMDE).

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|-----|---|--|---|---|
| (b) | Although an 2022 unidentified loan 2023 balance of Rs. 66 million was shown as Accumulated funds in the trial balance for the year under review, such a balance had not been included in the statement of financial position. | Actions should be taken to disclose all matters in the financial statements. | Any action had not been taken in that regard. | The facts in the recommendations have not been implemented to date. |
| (c) | The liabilities 2021 related to the 2022 received 2023 commitment fees and outstanding | Actions should be taken to disclose all liabilities in the financial statements. | Any action had not been taken in that regard. | The facts in the recommendations have not been implemented to date. |

advances amounting to US\$ 203,602.80 equivalent to Rs. 63.60 million had been included in the consolidated distribution reports submitted by UNDP. However, those fees and outstanding advances had not been accounted.

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| (d) | As per Section 69 of Part 7 of the Project Document, the Consolidated Distribution Report (CDR) should be approved by the Secretary of the Ministry of Irrigation (Implementing Agency). However, during the approval of the CDR for the period 2017 to 2023, the Secretary had certified only the expenditure of US\$ 17,657,672.68 related to the Project Management Unit. | 2021
2022
2023 | The Secretary of the Ministry of Irrigation should approve the joint distribution report. | Any action had not been taken in that regard. | The recommendations have not been implemented to date due to the Secretary's refusal to sign the document due to the fact that the expenditure incurred by the UNDP was not included in the accounting records and accordingly, the amount was not included in the annual treasury estimates. |
| (e) | The Project Management Unit had received Rs. 3,074 million (US\$ 12.98 million) from the Green Climate | 2022
2023 | The government contribution should be released based on the amount received by the project operation | Any action had not been taken in that regard. | Facts in the recommendations have not been implemented to date. |

Fund and Rs. 2,141.95 million (US\$ 8.84 million) from the Government of Sri Lanka up to the end of 2023.

According to Part B of the Funding Proposal of the Fund Activity Agreement (FAA), the contribution of the Government of Sri Lanka is 27 percent and the Green Climate Fund is 73 percent of the total budget of the project. Although the project received Rs.3,074 million from the GCF, it is only 59 percent of the total project cost. Accordingly, the Government of Sri Lanka had to bear Rs. 1,789 million, equivalent to 36.6 percent of the project cost, during the period 2017-2023.

unit as per the conditions.

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| (f) | According to 2022 Article 2.01 of the 2023 Funding Agreement (FAA), the Accredited Entity (UNDP) “shall implement, manage and supervise the | Actions should be taken to implement Project activities by the implementing agency and the FAA-accredited entity should direct and monitor them. | UNDP had been asked to submit information related to the expenses incurred from 2017 to date and to take steps to include those expenses in the | Facts in the recommendations have not been implemented to date. |
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activities financed by the Executing Entity". However, the Accredited Entity (UNDP) was engaged in the implementation of project activities and spent 51.84 percent of the total cost or Rs. 3,198 million equivalent to US\$ 14.91 million during the period 2017-2023.

government accounts on 17 June 2022.

8. Improvement Division on Provincial Governance

8.1 Rural Infrastructure Development Project in Emerging Regions (RIDEP)

The Japan International Cooperation Agency had agreed to provide a loan of Rs. 17,185 million under the Loan Agreement No. SLP 116 for the Rural Infrastructure Development Project in Emerging Regions, which was initiated on 07.07.2017 and the contribution of the Government of Sri Lanka was Rs. 3,437 million. The project was scheduled to be completed on 07.07.2024.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is given below. The Auditor General had given an unqualified opinion on the financial statements of the project for the 02 years namely 2021 and 2022, but the financial statements for the year 2023 have been submitted on 09th December 2024.

Year	2021	2022	2023
	Rs.million	Rs.million	Rs.million
Total expenditure for the year			
Government funds	229.31	220.00	367
Foreign funds	2,523.05	1,067.00	-
Total assets	4,739	9,256	6,652
Total liabilities	4,739	9,256	6,652
Total Funds			
Through foreign loans	2,523.05	1,067.00	-
Through Local funds	229.31	220.00	367

In addition, several important audit observations arising from the audit reports submitted for the last 2 years in respect of the project were as follows.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive Measures Taken by the Auditee	Progress of the Recommendation as at the date of the Report
(a). Thirty nine of the 73 sub-projects for drinking water that the consultancy firm had agreed upon, were abandoned. Accordingly, both the sum payable to that Company and the time given for presenting the project reports including the detailed plans, feasibility study report and procurement documents, should have been deducted. Nevertheless, it was not verified in Audit that such a programme had been agreed upon by the consultancy firm to deduct the cost and the number of man-months.	2022	The sum payable to the consultancy firm should be deducted in relation to the number of sub-projects abandoned.	There is no necessity that the sum payable to the consultancy firm be deducted in relation to the number of sub-projects abandoned.	The recommendation has not been implemented.
(b). As funding had been suspended by JICA, the progress of 24 sub-contracts out of 62 had become 1-68 per cent due to poor performance in constructions whilst the progress of 38	2021/2022	Should be completed as per the work plan.	The Cabinet Memorandum has been presented, and action will be taken to achieve the progress.	Action has not been taken for completion as recommended.

sub-contracts remained 0-95 per cent as at 31st December 2022.

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| <p>(c). Once it became known that funding had been suspended by JICA in April 2022, contracts for 04 packages of rural road projects had been awarded in May 2022. Despite the possibility of completing works by making payments on civil works in progress although funding had been suspended, a sum of Rs.37 million had been paid as mobilization advance for 03 rural roads and irrigation contract packages which had been awarded newly.</p> | 2022 | <p>Action should be taken to complete the civil works already in progress.</p> | <p>It was June 2022 that the projects became aware of JICA suspending funds.</p> | <p>Action had not been taken to complete works as per recommendations.</p> |
| <p>(d). It had been agreed to pay Rs.31.4 million on works such as preparing plans, taking cross-sectional measurements and drawing designs for 37 contract packages; and, a sum of Rs.19.6 million had been paid to the</p> | 2021/2022 | <p>The activity that had been agreed, should be executed by the consultant, and payments should not be paid to the contractor in that connection.</p> | <p>Those two activities came under two different works, and action had been taken as per the agreements.</p> | <p>Overpayments had not been recovered contrary to the recommendations.</p> |

contractors for the same work as at 31 December 2021. As such, payments had been made to two parties with respect to the supply of same service.

8.2 Transport Connectivity and Asset Management Project – Component 02 (PRDP)

The International Development Association had agreed to provide a loan of Rs. 17,595 million under Loan Agreement No. 5788-LK for the Transport Connectivity and Asset Management Project - Component 02, which was initiated on 02.05.2019 and the contribution of the Government of Sri Lanka was Rs. 200 million. The project was extended on two occasions and was planned to be completed on 31.03.2024.

Certain important information on the financial position of the project for the years 2021, 2022 and 2023 is shown below. The Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2023.

Year	2021	2022	2023
	million Rs.	million Rs.	million Rs.
Total expenditure for the year			
Government Grant	42.90	41.80	53.21
Foreign Grant	4,200	4,365.3	5,215.50
Total Assets	5,916	15,676	20,127
Total Liabilities	5,916	15,676	20,127
Total Funds			
Through foreign loans	4,210.47	3,558.61	5,267.58
Through Local funds	42.97	41.82	53.21

Additionally, several important audit observations arising from the audit reports submitted for the last 3 years regarding the project were as follows.

Audit Observation	Year of the report	Auditor General's Recommendation	Preventive Measures taken by Audited Institutions	Implementation status of the recommendation as at the date of report
(a). Although the transportation cost should also be included in the unit price submitted for each item in the bill of quantities, the contractor was paid Rs.11 million as transportation cost of the N.W.P 03 package and it had been used for the price variation as well.	2023	The project should follow the provisions of the Procurement Guidelines.	The measures taken to prevent have not been reported.	The provisions of the Procurement Guideline have not been followed.
(b). 25 percent of the total emergency contingent provision up to 30 September 2022; Rs.203 million, had been paid as contract variances contrary to the clause 8.13.1 of the procurement guidelines to incur the additional expenses such as payment to the staff, providing vehicles to the staff including the project director.	2022	The Procurement Guideline should be followed.	The proceedings have been made with the approval of the World Bank.	The payments contrast to the rules and regulations have not been recovered adhering to the provisions of the procurement guidelines.
(c). The approval had been granted by the Letter No. DMS/D/7777/TCAM	2022	The proceedings should be made as per the circulars.	The approval is not granted thereby for the Resident	The unapproved staff payments have not been deducted from

P dated 30 March 2019 from the Department of Management Services for the staff of the Provincial Project Consultancy Service Units. A sum of Rs.80 million had been paid contrary to the said approval for 05 posts as BOQ item in the contract bills.

Engineer's (RE) contract bills. and Assistant Resident Engineer's (ARE) supporting staff.

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| <p>(d). ABC has been 2022 substituted for sub-base type 01 in the boundary expansion function. Consequently, an additional amount of Rs.696,018 had been paid to the contractor in the boundary expansion function.</p> | <p>The works should be completed as per the BOQ.</p> | <p>Herein, the engineer has decided to lay stones instead of soil in small strips (0.15-0.3m) in widening the road on both sides, and the proceedings have been done accordingly.</p> | <p>The works have not been completed as per the BOQ.</p> |
| <p>(e). An amount of 2022 Rs.22.2 million from the provisions of the project had been used for the permanent engineers of the Provincial Road Development Authority and the Provincial Road Development Department working in the public service to fulfill their professional qualifications.</p> | <p>The actions should be taken to use the provision only for the project objectives approved by the loan agreement.</p> | <p>The main reason why the engineers of the Provincial Road Authority and Departments do not stay for a long time in the said places and look for other jobs was identified as the lack of facilities to obtain the chartered status in those places,</p> | <p>The amounts paid contrary to objectives of the project have not been recovered.</p> |

and the institution called Center of Excellence was established in the Ratmalana office of the Western Provincial Road Development Authority and these expenses have been incurred for the tasks required for that.

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| <p>(f). The Department of Management Services had given approval for the staff of the Provincial Project Implementation Units and Provincial Project Consultancy Service Units. However, in contrary to that, a sum of Rs.30 million had been paid under contract variations for 07 positions in Provincial Project Consultancy Service Units.</p> | <p>The proceedings should be made as per the circulars.</p> | <p>As pointed out in the audit, although an amount of Rs.30 million was spent on that, it can be pointed out that the government did not incur a loss as an amount equivalent to the said amount was deducted from the amount paid to the technical officers.</p> | <p>The staff payments which have been done in contrary to the provisions have not been recovered from the contractor.</p> |
| <p>(g). An amount of Rs.405,150 had been paid for a Management Assistant at Ratmalana Training Institute under the variations of the WP 03 contract package without approval of</p> | <p>The proceedings should be made as per the circulars.</p> | <p>This officer was employed temporarily to carry out the tasks essential to the office in support of several consultants.</p> | <p>- DO -</p> |

the Management
Services Department.

- (h). The worth of the 2023
unfulfilled 121
estimated work items
related to 03 contract
packages amounted
to Rs.43.2 million,
the worth of works
performed less than
the estimated amount
with regard to 108
work items amounted
to Rs.129.96 million,
the worth of works
performed in excess
of the estimated
amount in relation to
117 work items in 04
packages amounted
to Rs.218.4 million,
and the worth of the
embankment
construction work
items of 03 packages
not estimated in
advance amounted to
Rs.53.4 million.
Accordingly, the
consultants/
engineers had not
worked with due
care.
- The provisions of
the project
procurement
guidelines should
be followed to
lessen the burden
on the government
caused by the
variations.
- If this level of
change is
required to be
maintained at a
very low level,
the related
activities should
have been
completed before
the
commencement
of the project.
However, such a
process is not
seen in the
provincial road
development.
- The provisions
of the
Procurement
Guideline have
not been
followed.

8.3 Local Development Support Project (LDSP)

The International Development Association had agreed to provide a loan of Rs.12,222 million and a grant of Rs.4,221 million under Loan Agreement No. 6371-LK for the Local Development Support Project, which was initiated on 30.06.2019, while the contribution of the Government of Sri Lanka was Rs.1,222 million. The project was extended in two instances and was planned to be completed on 30.09.2024.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is depicted below. The Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2023.

Year	2021	2022	2023
	million Rs.	million Rs.	million Rs.
Total expenditure for the year			
Government Grant	21.4	31.14	31.21
Foreign Grant	696.58	2,391.28	3,429.55
Total Assets	3,735	6,977	8,225
Total Liabilities	3,735	6,977	8,225
Total Funds			
Through foreign loans	1,594.5	2,747.9	1,548.3
Through foreign grant	1,102.0	175	1,583.6
Through Local funds	21.4	31.1	31.2

Additionally, several important audit observations arising from the audit reports submitted for the last 3 years regarding the project were as follows.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive Measures Taken by the Auditee	Progress of the Recommendation as at the date of Report
(a). A contract valued at Rs.18 million had been awarded on 15 February 2022 by Pradeshiya Sabha, Thirappane to construct a public market for agricultural products. Eventhough, Rs.2.7 million had been paid, the contracted had been neglected. And also Rs.3.6 million conditional advance guarantee paid contrary to bid documents related. Therefore the Pradeshiya Sabha was unable to unilaterally invalidate the contract agreement thereby encashing the performance surety and advance surety when the contractor abandoned the contract.	2023	Disciplinary action should be taken against negligence of officers.	The deputy project director of North Central Province has been informed thereon, and once responded by him, the final reply will be given.	Progress in the implementation of recommendation has not been reported.
(b). It was planned to construct a business development center at the Vivekanantha public library, Eravur-5 by 06 July	2023	Penalties for delay should be recovered from the contractor as per the contract agreement.	The deputy project director of Eastern Province has been informed thereon, and	Progress in the implementation of recommendation has not been reported.

2022, and an extension had been granted for 03 months until 06 October 2022. Nevertheless, the contractor had completed the contract on 31 March 2023, but a penalty for delay relating to 175 days amounting to Rs.1.4 million had not been recovered from the contractor by the Eravur urban council.

once responded by him, the final reply will be given.

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| <p>(c). Bids had been invited under national competitive bidding for construction of the rural market building at Rajanganaya junction. Those two companies who have present lowest values had rejected accepting the contract, and the contract had been awarded to the company whose bid value amounted to Rs.34 million As compared to the Department of engineering, the project indicated an increase of 150 per cent. In case the bid value differs materially to the</p> | <p>2023</p> <p>Guidelines in the CIDA agreement should be followed.</p> | <p>The deputy project director of North Central Province has been informed thereon, and once responded by him, the final reply will be given.</p> | <p>Progress in the implementation of recommendation has not been reported.</p> |
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engineering estimate, the estimate should be revised and bids should be called anew. But it had not been so done.

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| <p>(d). Having spent a sum of Rs.47.5 million, a shopping complex comprising 08 stalls had been constructed on a Government land by the Pradeshiya Sabha, Rajanganaya at Puttalam junction, but rights to the land had not been vested prior to the construction of building. As constructions had been made without settling the land title, the shopping complex so constructed, could not be made use of fully for the intended purposes.</p> | <p>2023</p> | <p>Action should be taken to settle the land title.</p> | <p>The deputy project director of North Central Province has been informed thereon, and once responded by him, the final reply will be given.</p> | <p>Progress in the implementation of recommendation has not been reported.</p> |
| <p>(e). The Pradeshiya Sabha, Nochchiyagama had implemented a drinking water project for the general public in Katupatwewa at an expenditure of Rs.37 million but the land had been used by a private party under a</p> | <p>2023</p> | <p>Prior to the implementation of the project, the preliminaries such as acquisition of lands should be done.</p> | <p>The deputy project director of North Central Province has been informed thereon, and once responded by him, the final reply will be given.</p> | <p>Progress in the implementation of recommendation has not been reported.</p> |

license from the Divisional Secretary. As such, the land not been formally acquired by the Pradeshiya Sabha.

- (f). Contrary to 2021/2 Action should be The Chief Progress in the provisions of the 022/ taken to recover Secretary of the implementation of Management 2023 the salaries paid North Central recommendation has Services Circular contrary to the Province had not been reported. No. 01/2019 dated 05 March 2019, Commissioner of Local Government, North Central Province had been appointed as the Deputy Project Director and a sum of Rs.683,000 had been paid as salaries. been informed through the letters dated, 2022.02.14, 2022.09.08 and 2024.09.24 to recover those monies.
- (g). The physical 2022/2 Action should be All the projects The progress progress expected 023 taken to expedite have been remained poor. out of components the implementation completed reaping benefits. such as, strengthening the of projects in order to maximize benefits expected from all the parties. planning system of local authorities, assistance for services of local authorities and economic infrastructure and improvement of institutional development, stood at 80 per cent 70 per cent and 85 per cent respectively. But the actual progress thereof remained 45 per cent 66 per cent

and 30 per cent respectively.

(h). Four consultants had been appointed to complete the activities viz, capacity development, supervision and evaluation, and development of economic infrastructure in Northern and Eastern provinces, and infrastructure development works of Uva and North Central Provinces on or before 10 January 2020. Part of the payment amounting to Rs.3.7 million had been made in the year under review. Nevertheless, no benefit whatsoever had been gained out of the said activities that had not been completed on time.	2021/2022	Action should be taken to recover the payments made.	The Secretary to the Ministry had appointed a Committee chaired by Mr. S.G. Chandradasa on 2021.10.07 to determine as to whether the duties of consultants (TOR) be continued, whether such duties be revised, and make the payment payable to them. According to reports of the Committee, a mutual agreement could be reached after having discussions with the consultants regarding their responsibilities. Accordingly, their consultancy services had been terminated by making payments to them.	Action had not been taken for recovery as per the recommendations.
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(i). The facilitator for technical procurements, management of public finance, and participatory development plan for local authorities, and the 04 consultants appointed for environmental and social security, had been paid a sum of Rs.6.47 million. However, due to failure in completing the said consultancy works within the specified time, the said expenditure had become fruitless. Having disregarded that, a decision had been taken on 23 February 2022 to pay the balance amount despite the non-completion of the work.	2021/2022 Action should be taken to recover the payments made.	- Do-	Progress in the Implementation of recommendation has not been reported.
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8.4 Local Government Enhancement Sector Project (LGESP)

Asian Development Bank was agreed to provide a loan of Rs. 7,670 million under the Loan Agreement No. 2790 SRI (SF) and an additional loan of Rs. 8,700 million under the Loan Agreement No. 3431 SRI (SF) for the Local Government Enhancement Sector Project initiated on 01.07.2012 and the contribution of the Government of Sri Lanka was Rs. 2,410.80 million. The project was extended on four occasions and was planned to be completed on 31.01.2024.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below. The Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and qualified opinion had been given for the year 2023.

Year	2021	2022	2023
	million Rs.	million Rs.	million Rs.
Total expenditure for the year			
Government Grant	400	195	285.06
Foreign Grant	2259.3	1,664.55	2,175.35
Total Assets	18,364	40,407	39,184
Total Liabilities	18,364	40,407	39,184
Total Funds			
Through foreign loans	2,140	1,697.08	2530.47
Through Local funds	400	195	258.42

Additionally, several important audit observations arising from the audit reports submitted for the last 3 years regarding the project were as follows.

	Audit Observation	Year of the Report	of Recommendation of the Auditor General	Preventive Measures Taken by the Auditee	Progress of the Recommendation as at the date of Report
(a)	<p>It was found in the audit examination carried out at 05 of the 07 local authorities where the assets management software had been installed that the database of the software contained only the data of assets input at the time of installing the software, and such data had not been updated.</p> <p>Furthermore, using the said data, the user could not get information from the system useful enough to take decisions on assets management, and the local authorities were using spreadsheets for their requirements rather than using the said software; thus, it was observed that a useless software had been installed by incurring a sum of US \$ 133,747.70.</p>	2022/2023	<p>A continuous procedure should be maintained for training officers to make modifications during the project period and solve technical issues thereafter.</p>	<p>All the necessary training had been provided, and the relevant Pradeshiya Sabha is held responsible for continuing the process in an up-to-date manner.</p>	<p>The recommendations have not been implemented.</p>
(b)	<p>An engineer had been selected as a consultant for a period of one year to</p>	2021	<p>Action should be taken to recover the payments.</p>	<p>Those recommendations had been included in the</p>	<p>Recommendations had not been implemented.</p>

assist technical audits. According to the agreement entered into between the Secretary to the Ministry and technical audit consultant, the key issues and recommendations should be mentioned in the final report by the technical audit consultant. However, none of the key issues or recommendations had been mentioned in the report, but having disregarded that, a sum of Rs. 12.47 million had been paid to the consultant.

monthly reports presented by the consultant. Technical audit consultancy services had been expected from him, and as per the TOR, the project had been continued based on his recommendations given day to day.

8.5 General Education Modernization Project (Component 1 – Provincial Part) (GEM)

The International Development Association had agreed to provide a loan of Rs. 15,505 million under Loan Agreement No. 6228 for the General Education Modernization Project (Component 1 – Provincial Part), which was initiated in 2018 (30 August). The project was planned to be extended on two occasions and completed on 30 June 2025.

Some important information about the financial position of the project for the years 2021, 2022 and 2023 is shown below. The Auditor General had given an unqualified opinion on the financial statements of the project for the years 2021, 2022 and 2022.

Year	2021	2022	2023
	million Rs.	million Rs.	million Rs.
Total expenditure for the year			
Government Grant	-	-	-
Foreign Grant	1,600	2,673	3,614
Total Assets	2,413	5,083	8,697
Total Liabilities	2,413	5,083	8,697
Total Funds			
Through foreign loans	2,010.1	2,670.23	3,613.7
Through Local funds	-	-	-

Additionally, several important audit observations arising from the audit reports submitted for the last 3 years regarding the project were as follows.

Audit Observation	Year of report	Auditor General's recommendation	Preventive measures taken by auditee entity	Implementation status of recommendation at the date of report
(a). North Western Province 156 Trapezoid tables worth of Rs.3.7 million had been	2022	In carrying out purchases, the necessity should be considered.	The instructions had been given to the relevant officers to be	The fund had been utilized uselessly.

purchased and distributed for learning mathematics and improvement of the mathematical activities in North Western province under General Education

Modernization

Project in the year under review. It is observed that these tables are normal tables which are not suitable for such mathematical activities and it was observed that the World Bank loans granted for development of mathematical knowledge suitably to the modern technology had been utilized uselessly.

considered the necessity when carrying out purchases.

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| <p>(b). Even though the enhancement of the quality of general education system and strengthening the custodianship had been introduced as the objectives and goals of the project, an amount of Rs.31 million had been spent from 2020 to 2023 for purchase of</p> | <p>2022/2023</p> | <p>The expenses incurred should be complied with DLI of projects.</p> | <p>This activity had been performed with an objective of DLI under "Complete School Quality Certification" by providing the facilities to the libraries, agricultural units, sports</p> | <p>It had been incurred not compliance with DLI.</p> |
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agricultural equipment, sports equipment, home science equipment and esthetic equipment in North western province.

units and home science units of schools.

- (c). It was observed at 2023 the audit that 10 classroom activity tables handed over to Mannar Zonal Education office on 25 October 2023 purchased by Provincial Education Department and 121 teacher chairs provided on 22 March 2024 had not been utilized for the expected purpose due to non-preparation to the technical specifications and various defects and stored in Zonal Education Office.
- The furniture which is not complied with the technical specifications should not be accepted and those furniture should be made again in accordance with the technical specifications and used.
- The Zonal Education Department had not accepted the goods indicated here owing to non-satisfaction on the technical specifications mentioned in the bidding documents and the payment had not been made to the supplier also. Furthermore, the performance guarantee of Lingam Weldings Ltd which is the supplier of teacher chairs had been encashed and included into the revenue.
- The recommendation had not been implemented.

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| <p>(d). Since the average marks obtained by the students in 2022 and 2023 for English and Mathematics of the students in Grade 10 and 11 of 04 schools in North western province which had been influenced to field inspection is lower than 41 percent, it was observed that it couldn't be reached to 02 indices related to first expenditure as expected by the project.</p> | <p>2023</p> | <p>The action should be taken to fulfil the objectives of the project.</p> | <p>It had not been reported what measures had been taken to prevent.</p> | <p>The recommendation had not been implemented.</p> |
| <p>(e). 58 schools had been selected in Southern province from 2018 to 2021 under improvement of English language education and even though it was expected that the performance level of the students at the end of 2022 under that component was at least 60 percent, the average marks of 6243 and 6540 students in Grade 8 and 9 for Mathematics were 37.37 percent and 37.83 percent respectively when</p> | <p>2022</p> | <p>-Do-</p> | <p>-Do-</p> | <p>-Do-</p> |

comparing the marks obtained for English language at final term test of 07 zonal offices.

- | | | | | | |
|------|---|------|------|------|------|
| (f). | 38 schools had been selected in Southern province from 2018 to 2021 under improvement of Mathematics education and even though it was expected that the performance level of the students at the end of 2022 under that component was at least 60 percent, the average marks of 4826 and 5090 students in Grade 8 and 9 for Mathematics were 47.97 percent and 44.38 percent respectively when comparing the marks obtained for Mathematics at final term test of 08 zonal offices. | 2022 | -Do- | -Do- | -Do- |
|------|---|------|------|------|------|

09. Treasury & Government Loan Section

9.1 Minimizing the Impact of the Economic Crisis and Restoring Social Stability Project

It had been agreed to grant a loan amount of Rs.108, 062 million under World Bank Loan agreement No.9290 –Lk for Minimizing of Impact of Economic Crisis and Restoring Social Stability Project commenced on 09 May 2022. The project had been extended at one occasion and it had been planned to end on 09 May 2024.

The some important information on the financial status of the project in 2022 and 2023 is as follows and the unqualified opinion had been provided by Auditor General for the financial statements of the project for such 02 years.

Year	2022	2023
	Rs. Million	Rs. Milliomm
Total Expenditure of the year		
Government fund	-	-
Foreign fund	99,903	12,642
Total Assets	101,800	112,653
Total Liabilities	-	-
Total fund	101,800	112,653
Through foreign funds	101,800	112,653
Through local funds	-	-

In addition, several important audit observations arisen from the audit reports submitted for previous 02 years related to project are as follows.

Audit observation	Year of Report	Auditor General's recommendation	Preventive measures taken by the auditee entity	Implementation status of the recommendation at the date of report
(a) Subsequent to 2022 payment of beneficiary allowances from the advance amount provided to Department of Samurdhi Development, an amount of Rs.1,096 million and Rs.93 million remained due to the over assessment had been settled on 29 December 2022 and 18 April 2023 with the delays of 04 months and 08 months respectively.		The funds should be efficiently utilized by using the accurate data for fulfillment of the project objectives.	It is agreed with your observation.	It had been pointed out the necessity of implementation of an accurate data system for this and even though the provisions had been allocated to improve the existing data system, the necessary action for improvement of that had not been carried out by Department of Samurdhi Development.
(b) The total estimated expenditure of the project is Rs.108, 225 million equal to US \$ 325 million and such amount was for the activities to be carried out in 2022. Within the year under review, the total fund utilization of the		The necessary steps should be taken to fulfil the all targets as expectedly and utilize the provisions in an optimum manner.	Agreed.	Even though it was like that as at 31 December 2022, the total expenditure of the project was Rs.112, 545.41 million equal to US \$ 309.89 million as at 31.12.2023 and it is 95 percent of the estimated cost of the project.

project is Rs. 100 million equal to US \$ 274.37 million and it was 84 percent of the estimated cost of the project.

Furthermore, it had been shown the possibility of maximum utilization of the provisions by taking action as per the action plan in order to fulfill the all expected targets related to project.

- (c) In accordance with the public debt management system of External Resources Department, an amount of Rs.2.26 million equal to US \$ 6,934.5 had been uneconomically paid to loan providing agency as commitment fees for loan disbursed.

The action should be taken to utilize the provisions allocated.

Under Inclusive Connectivity Development Project - CERCs (ICDP), an amount of US \$ 500 million had been allocated to Ministry of Transport and Highways. However, US \$ 325 million had been allocated again by activation of Inclusive Connectivity Development Project (ICDP) with an objective of minimization of the impact of economic crisis and restoration the social stability implemented by this department due to the sudden situation arisen in

The commitment fee is US \$ 679,985.04 for Inclusive Connectivity Development Project (ICDP) implemented by Ministry of Transport and Highways. However, the commitment fee can be estimated as US \$ 6,934.5 (Rs.2.26 million) related to the activities implemented by Department of National Planning. It is 1 percent of the total commitment fee for the project.

the country. Accordingly, it was observed that a commitment fee of US \$ 679,985.04 had been paid mentioned in the audit observation for overall ICDP (including the project implemented by Ministry of Transport and Highways.

- (d) The provisions 2023 required for the project had not been allocated for 2023 from annual budget estimates and the total provision of Rs. 12,642 million had been allocated from the supplementary provision and F.R.66.
- The provisions should be allocated from the budget estimates for the fulfillment of the objectives of the projects efficiently.
- Even though 27,987.02 metric tons of fertilizer had been provided by the supplier, Liven Nutrition Private company had reached to the port on 22 December 2022 and the payment in relation to that supply had been paid by World Bank on 03 January 2023. Therefore, it was required to allocate the provisions for such expenditure in 2023. Moreover, since the import of fertilizer
- After making required provisions, it had been accurately accounted in the financial statements as at 31.12.2023.

had not been carried out in 2022 as scheduled, it had been decided to purchase the remaining fertilizer in 2023. Therefore, the necessary provision had been allocated from the supplementary estimates and F.R.66.

- | | | | |
|--|--|---|--|
| <p>(e) Even though US \$ 110 million had been allocated for purchase of Urea fertilizer under this project, only US \$ 100 million had been utilized for that up to 31 December 2023.</p> | <p>The action should be taken to maximally utilize the provisions allocated.</p> | <p>Agreed.</p> | <p>The estimated expenditure is US \$ 110.00 and the utilized expenditure was US \$ 100.13 as at 31.12.2023. Accordingly, the progress of that was 91 percent on that date. The remaining amount of Rs. US \$ 10 million had been handed over to ICDP.</p> |
| <p>(f) In accordance with the project accounts maintained by Central Bank of Sri Lanka, Rs.1,698 million equal to US \$ 5,226,053 had not been utilized for the objectives of the project and handed</p> | <p>The action should be taken to maximally utilize the provisions allocated.</p> | <p>Agreed. Accordingly, the remaining funds for this project had been sent to World Bank to return to Inclusive Connectivity Development Project.</p> | <p>Since the payment had been only made to the beneficiaries through this account under social protection component implemented under this project, the implementation of</p> |

over to loan granting agency.

such component had been completed. On a request of World Bank, said account had been closed on 18.04.2023. The direct payment method had been used to purchase of the fertilizer and gas.

(g) Even though US \$ 145 million had been allocated to provided money subsidy (Samurdhi, elders, kidney diseases, disabled allowances) under project, only US \$ 140 million had been used out of that as at 31 December 2023. Similarly, the list of beneficiaries related to that had not been verified by above money subsidy project co-ordination unit.

The action should be taken to verify whether the provision allocated had been utilized maximally and the money subsidy had been given to the suitable persons.

The payment of money to the beneficiaries under this project had been carried out through Samurdhi Bank. Accordingly, the all payment details including the list of beneficiaries should be maintained by project implementation institute, Department of Samurdhi Development and Samurdhi banks.

This department had made aware several times to Department of Samurdhi Development to maintain such documents by Department of Samurdhi Development and Samurdhi banks as project implementation institutes.

(h) As per the invoices, Urea fertilizer of 137,400 metric tons had been issued to Colombo Commercial Fertilizer Company and Lanka Fertilizer

The action should be taken for clarification the accurate information and verification whether the distribution had

In accordance with the decisions taken at the discussion held on 22 November 2023, the letter of Department of Treasury

Once the relevant information will be received, it had been made aware Ministry of Agriculture and Department of Agrarian Services to

<p>Company for the distribution to the farmers in 2022/23 Maha Season and 2023 Yala Season. In accordance with the information forwarded to the audit by Director General of Department of National Planning, the quantity of Urea fertilizer imported is 137,848 metric tons. Accordingly, there is a difference of 448 metric tons of Urea fertilizer which had not been verified.</p>	<p>been carried out as expectedly.</p>	<p>Operations No.SMFI/3/D/06/08 and as mentioned in Volume V of World No. SMFI /3/D/06/08 of World Bank, the facts related to distribution of such fertilizer had been submitted to the Department of Treasury Operations with a copy to our department through the letter No. TO/SL&TG/01/37/02 dated 29</p>	<p>immediately provide accurate information for submission to the audit.</p>
<p>(i) Even though Urea fertilizer of 137,848 metric tons had been issued, it had been verified by project coordination unit that only 123,540 metric tons had been received. Therefore, it was observed non-reconciled/not verified distribution of Urea fertilizer of 14,308 metric tons. Similarly, the name list of the beneficiaries in relation to distribution of</p>	<p>The action should be taken to verify whether the distribution had been carried out to accurate persons as expectedly.</p>	<p>November 2023 by Ministry of Agriculture and Plantations. Accordingly, Urea fertilizer of 118, 872.18 metric tons out of 137,848.33 purchased under this project had been distributed to the farmers. Moreover, it had been requested by this department to provide the information on distribution of remaining fertilizer</p>	

fertilizer had not
been given.

of 18,976.15
metric tons to the
farmers. Similarly,
the all information
of distribution of
Urea fertilizer of
123,540.785
metric tons out of
137,848.26 metric
tons had been
forwarded to the
World Banka with
a copy to this
department and the
information had
been requested for
remaining fertilizer
of 14,307.255
metric tons by the
letter No. N.P.
/CERS/2/2022/Agr
i dated 18 June
2024.

9.2 Food Security Livelihood Recovery Emergency Assistance Project

It had been agreed to grant a loan amount of Rs. 74,091 million under loan agreement No.4205 SRI and Grant No.9229 of Asian Development Bank for Food Security Livelihood Recovery Emergency Assistance Project commenced on 16 September 2022. At one occasion, the project had been extended and it had been planned to complete on 31 August 2024.

The some important information on the financial status of the project in 2022 and 2023 is as follows and the Auditor General had expressed unqualified opinions for the financial statements of the project in 2022 and 2023.

Year	2022	2023
	Rs.million	Rs.million
Total expenditure of the year		
Government Funds	-	-
Foreign funds	52,899	14,424
Total assets	68,403	67,567
Total liabilities	5,872	28
Total fund		
Through Foreign loans	62,508	67,539
/grants	-	-
Through local funds		

In addition to the facts caused to express such audit opinion, several important audit observations arisen from the audit reports submitted for previous 02 years related to project are as follows.

Audit observation	Year of report	Auditor General's recommendation	Preventive measures taken by the audit entity	Implementation current status of recommendation at the date of report
(a) Even though an amount of Rs.5,000 should be paid to each beneficiary in Samurdhi waiting list, it was observed that an amount less than Rs.5,000 had been paid to one person in September and October in accordance with the schedule submitted for the audit. The aggregate of such less payments to the beneficiaries was Rs.187 million.	2022	The action should be taken to pay the approved amount.	Under Samurdhi waiting list, it was observed that an amount of Rs.4,700 had been paid to a beneficiary in September 2022 and an amount of Rs.3,000 had been paid to one beneficiary in October 2022.	It had been instructed to follow the directions and relevant circulars provided for the payment.
(b) The estimated expenditure of the project was US \$ 203.36 million in 2022, and a provision of Rs.172.12 million had been included in it for the activities due to be performed in 2022. However, an amount of Rs.55,930 million equal to US \$ 153.7 million had been only utilized as at 31 December 2022 and it was only 84 percent from the estimated cost for 2022.		The necessary measures should be taken to optimally utilize the allocated fund for fulfillment of the all targets as expectedly.	Agreed.	At the end of 2024, the estimated to total cost related to the project was US \$ 203.36 million and it had been reported the total expenditure as US \$ 191.78 million with regard to that. It was 94 percent of the cost of the project. Furthermore, the period of project had been extended

up to August 2026 by the cabinet decision dated 22.05.2024 related to cabinet memorandum No. 24/0861/604/097 dated 30.04.2024 enabling to fulfill the all expected targets in relation to the project and it had been shown the possibility of maximally utilization of the provisions by taking action as per the action plan.

- (c) In accordance with the action plan of the year under review, the providing of nutritious foods to the pregnant mothers and providing the nutritious allowance for the lactating mothers and the children below 02 years had been mentioned as the activities of the project under foreign debt financing in 2022. Even though the budget provision of Rs.2,650 million had been allocated, These financial provisions had not been utilized for
- The necessary steps should be taken to achieve all targets as expectedly.
- Since it had not been completed the opening of new bank account of the pregnant mothers of Samurdhi Bank before 31 December 2022, the remaining provision had been transferred to another expenditure head. Moreover, the instructions had been given for opening the bank account and the bank accounts had
- The total expenditure incurred on 31.12.2023 was Rs. 1,533,200,000 for 153,320 mothers who had opened the accounts for this component.

relevant activities under this project and transferred to other object through F.R.66.

been opened for the identified beneficiaries as per circular and the payments had been completely made.

- | | | | |
|--|--|---|---|
| <p>(d) According to the 2023 budgetary estimate for the year 2023, Rs. 8,578 million has been allocated under 03 expenditure items to carry out the work of the project and the total amount transferred under Financial Regulation 66 was Rs. 7,119 million. A total of Rs. 4,208 million was accounted under the expenditure items of the project and a total of Rs.2,911 million was accounted under other projects implemented under the Department of National Planning in these transfers,. Accordingly, Actions had not been taken to prepare the realistic budgetary estimates for the implementation of the project during the year under review.</p> | <p>Actions should be taken to allocate the Provisions properly from the budgetary estimate to efficiently accomplish the project's objectives.</p> | <p>Rs. 8,577.50 million has been allocated from the 2023 budgetary estimates to provide support for livelihood development activities of farmers and low-income families and for upgrading CRM and Geogoviya information systems.</p> | <p>Even though allocations are made according to the requests of the operating institutions and the plan implemented for each year, there are savings due to non-implementation of those tasks.</p> |
| <p>(e) According to the records of the Department of Agrarian Development, Rs. 7,424 million had</p> | <p>Actions should be taken to submit the numbers correctly.</p> | <p>As stipulated in this audit inquiry, there is a discrepancy in the</p> | <p>As mentioned herein, since there is a discrepancy in the number of</p> |

been paid to 1,039,961 farmers between December 2022 and June 2023. However, according to the project's records, subsidies had been provided to only 1,035,218 farmers. Accordingly, there was a difference of 4,743 farmers.

number of farmers. Therefore, the Chief Financial Officer of the Department of Agrarian Development (DAD) has been informed though the Commissioner General of the Department of Agrarian Development and the Commissioner General of the Department of Agrarian Development confirmed as 1,039,961 by the Department of Agrarian Development's letter No. 7/5/8-330-01 and dated 19.08.2023.

- (f) JFPR has agreed to provide a grant of US \$ 3 million through the Asian Development Bank to finance the relevant project activities in addition to the loan amounting to US \$ 200 million given for this project by the Asian Development Bank. A sum amounting to US \$ 0.1902 million or Rs.68.36 million out of that grant had been allocated for the year 2023. However, only US

Measures required to achieving the targets and the allocated grant should be effectively used.

Not replied.

A sum of Rs. 443.56 million out of that grant has been allocated for the year 2024 by the JFPR through the Asian Development Bank for financing activities of the relevant project. The expenditure incurred therefor in 2024 stood at Rs.277.35million. It is 63%. And also, the project period has been

\$ 0.09 million or Rs.33.57 million or 47 per cent had been allocated in the year 2023.

extended to achieve all expected targets related to the project.

- (g) As per the Government debt accounting system of the Department of External Resources, due to non-utilization of funds, US \$ 45,801.27 equivalents to Rs.15 million had been paid on 15 March 2024 as commitment charges to the Agency.

Action should be taken swiftly to fully utilize the allocated funds.

Agreed.

The loan interest and enrolment fees amounting to US \$ 12.19 million estimated for the project by 31.12.2024 had been fully paid.

- (h) ADB Loan

Although US \$ 2.65 million or Rs.965.47 million had been estimated for the improvement of efficiency and productivity of the Geogoviya in CRM and DAD of the Social Security Systems in the year under review, no utilization had been made thereon.

It is required to ensure that necessary measures are taken to achieve all targets and to fully utilize the allocated funds.

It was proposed under this project to enhance the Department of Samurdhi Development (DSD) and the CRM system of the Department of Agrarian Development. Before enhancing those systems, it was decided to make proposals to assess the existing systems and to make improvements thereto. Accordingly,

Since changing of the Samurdhi Assistance Programme into Aswesuma Programme and providing that assistance through the Department of Welfare Benefits Board and payment of that assistance through commercial banks, it was not required to enhance the CRM system at that time. Further, since the evaluation related to the existing Geogoviya system

studying thereof had not been
has been completed,
completed and the enhancement of
institutions that system was
implemented them, delayed.
have been Therefore, the
informed to make implementing
project proposals agencies have been
make informed to
improvements. identify the
Accordingly, it is enhancements
expected to carry required for the
out the relevant two systems
system related to the
improvements present
during the project circumstances and
period. inform the amount
of provision
needed therefor.

Accordingly, since
those institutions
have not informed
so far us the
enhancements
required for the
proposed systems
and the provision
required therefor,
no expenditure has
been incurred
therefor in the year
2024.

(I) ADB Grants

The following observations are made during the audit examination carried out to review the progress of the action plan as at 15 March 2024 in relation to the tasks under the grants for emergency assistance for the vulnerable (women, children and persons with disabilities) under the Ministry of Women, Children Affairs and Social Empowerment with the estimated cost of Rs. 695 million.

- | | | | |
|---|--------|---------|---|
| (i) The financial progress was only Rs.182 million or 27 percent of the estimate at the end of the year under review. | - DO - | Agreed | Its financial progress as at the end of the year 2024 was Rs.310.39 million and it is a quantity of 45 percent from the estimate. |
| (ii) The 12 sub-activities related to the 05 main activities had been abandoned. | - DO - | Agreed. | Some of the activities in the original Action Plan have been suspended (cancelled) by the Ministry of Women, Child Affairs and Social Empowerment and |
| | | | The approval for the revised Action Plan has been granted by this Department through the Letter No. NP/ADB/01/2022/MOWCS dated 22.03.2024. Accordingly, the |

		new activities have been identified and the Action Plan has been revised. The revised Action Plan has been approved by this department through the letter No. NP/ADB/01/2022/MOW/CS dated 22.03.2024.	said activities are being implemented by the implementing agencies.
(iii) There were no any progress in relation to 24 sub-activities related to 08 main activities.	-DO-	These activities will be implemented in the future as per the revised action plan.	
(b) There was no any progress for the provision US \$ 0.06 million or Rs.21.86 million in relation to the agricultural advisory services at the end of the year under review.	-DO -	These activities are expected to be implemented in the future.	
(J) Agricultural Awareness and Training Programs (GAP) had been allocated US \$ 0.25 million or Rs.91.08 million of grants for the years 2023/2024. However, only Rs.57,353 had been utilized at the end of the year under review.	- DO -	Agree. These activities are on-going and planned to be completed within the project period.	A sum of Rs.4.448 million has been used as at the end of the year 2024. It is a 5% progress on the estimate.

9.3 Financial Sector Modernization Project

A loan amount of Rs. 22,500 (USD 75 million) had been agreed to be given under the Loan Agreement No.6006-LK of the World Bank for the Financial Sector Modernization Project which was started on 18 October 2018 and the contribution of the Government of Sri Lanka was Rs.2 million. The project was extended at 1 occasion and had been scheduled to be concluded on 29 December 2023.

Some of the significant details on the financial position of the project in the years 2021 and 2022 are given below and an unqualified opinion for the financial statements 2021 and 2023 and a qualified opinion for the financial statement 2022 had been given by the Auditor General.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure of the year			
Government Fund	2,013,863	2,084,725	703,654
Foreign Funds	1,085,318	903,231	31,750
Total Assets	2,077,867,337	2,798,775,254	1,938,874,927
Total Liabilities			
Total Fund			
From Foreign Loans	739,191,183	104,947,864	(627,454,860)
From Local Funds	2,013,863	2,084,725	703,654

In addition to the particulars that gave the basis for the said audit opinion, some of the significant audit observations raised from the audit reports that had been presented for the previous 2 years are as follows.

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive measures taken by the Audited Institution	Implementation status of the recommendation as at the date of report
(a) Out of total allocation of Rs.339 million that had been made in the budget estimate for the activities of the project for the year under review, a sum of Rs.73 million representing 22% percent had not been	2023	The actions should be taken to utilize the total allocated funds as intended.	Agree with the observation.	The activities of the project have been ended by settling the balance amount without accomplishing the project activities.
(b) Total estimated cost of the project is USD 75 million. Although the project had been completed after the expiry of six years since the inception, the total loan utilization of was only USD 8.95 million which is 11.94% of the estimated cost of the project.	2023	DO	DO	The activities of the project have been ended by settling the balance amount without accomplishing the project activities.

- (c) The project is liable to 2023 pay 0.25% commitment charges on unutilized loan. Accordingly, uneconomic commitment charges of Rs.221 million (USD 992,133) had been paid to funding agency from 2018 to 2023.
- DO
- Any comment cannot be made since the commitment charges are handled by External Resources Department.
- The activities of the project have been ended by settling the balance amount without accomplishing the project activities.
- (d) No activity had been 2023 carried out by the project in the year 2023. The overall physical progress of the project as at 31 December 2023 is given below.
- The necessary actions should be taken to achieve targets as intended.
- Agree with the observation.
- The activities of the project have been ended by settling the balance amount without accomplishing the project activities.

	No. of Activities	Physical Progress %
Component 01 –		
DLI 1 - Adoption of consolidated, risk based supervision of the financial system (CBSL, SEC & IRCSL)	3 Activities	6.5
DLI 2 - Establish Institutional and Regulatory Framework for Financial Consumer Protection (FCP), Enabling Result: Implementation of legal and regulatory framework for FCP and development of institutional capacity for FCP across all financial services	1 Activity	6.5
DLI 3 - Establish an information system for holistic management of Employee's Provident Fund (EPF's) assets (investments) and liabilities (collections) and adopt a diversified investment strategy.	1 Activity	0.00
DLI 4 - Establishment of Delivery vs. Payment (DvP) mode of settlement for corporate securities to minimize possible risks to financial stability.	3 Activities	6.5

PLI 5 - Restructuring of the National Insurance Trust Fund (NITF) by separating the underwriting and reinsurance businesses	1 Activity	6.5%
Component 02		
(i) Strengthening the capacity of Central Bank of Sri Lanka for supervision and regulation, and modernizing relevant financial infrastructure.	2 Activities	0.7
(ii) Strengthening the capacity of Securities and Exchange Commission for supervision and regulation, and modernizing relevant financial infrastructure.	9 Activities	1.65
	12 Activities	0.00
(iii) Strengthening the capacity of Insurance Regulatory Commission of Sri Lanka (IRCSL) for supervision and regulation, and modernizing relevant financial infrastructure.	2 Activities	1.69

9.4 Emergency Response Component of Investment Project funded by World Bank

It had been agreed to grant a loan amount of Rs. 10,491 million (US \$ 56 million) under World Bank Loan Agreement No. 6,346-LK, 6,371-LK, 6,228-LK, 8,878-LK for Emergency Response Component of Investment Project funded by World Bank commenced on 08 September 2020 and the contribution of the Government of Sri Lanka is Rs.2 million. The project had been extended 01 occasion and completed on 31 March 2023.

The some vital information on the financial status of the project in 2021, 2022 and 2023 is as follows. The unqualified opinion had been given for the financial statements of the project for 2021, 2022 and 2023 by Auditor General.

Year	2021	2022	2023
	Rs.million	Rs.million	Rs.million
Total expenditure of the year	952,849	1,161,069	----
Government Funds	6,088,457,774	4,009,812,548	4,769,397,086
Foreign funds			
Total Assets	8,896,953,711	15,817,606,299	22,305,635,932
Total liabilities			
Total fund			
Through foreign debts	8,899,443,437	13,909,071,267	20,395,505,743
Through local funds	952,848	2,113,918	2,113,918

In addition, several important audit observations arisen from the audit reports submitted for previous 02 years related to project as follows.

Audit Observation	Year of Report	Auditor General's recommendation	Preventive measures taken by audit entity	Implementation status of recommendation of the date of report
(a) The agricultural crops productions had been identified as the priority for strengthening the food safety. However, 85 percent or Rs.3,640 million of overall provision had been allocated for the Ministry of Education and the allocated provision for ministry of agriculture was Rs.264 million. It was 6 percent of overall provision.	2022	As expected, it is necessary to take steps to fulfill the all targets.	It was very important to ensure to provide a nutritious and balanced meal to the vulnerable children throughout the country against the malnutrition and improvement of presence to school and educational performance due to prevailing economic crisis in the country.	Even though the period of project ended as at 31 March 2023, the physical purpose of the project had not been completed.
			The pool of CERC had decided to give the assistance to implement the project of providing mid-day meals to 1,081,927 children of 7,926 schools with requirements in island wide by using US \$ 19.08 million.	

9.5 Social Safety Nets Project

A loan amount of Rs. 10,949 million had been agreed to be provided under the Loan Agreement No. 5915 LK of the International Development Association for the Social Safety Nets Project started on 01 January 2017, and the contribution of the Government of Sri Lanka was Rs.19 million. The project had been extended at one circumstance and scheduled to be concluded on 30 June 2023.

Some of the significant details on the financial position of the project in the years 2021, 2022 and 2023 are given below and an unqualified opinion for the financial statements for the 3 years; 2021, 2022 and 2023 had been given by the Auditor General.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure of the year			
Government Fund	3	3	3
Foreign Funds	1,576	31	3,498
Total Assets	11,661	23,008	26,282
Total Liabilities			
Total Fund			
From Foreign Loans	1,639	283	3,521
From Local Funds	3	3	3

In addition, some of the significant audit observations raised from the audit reports that had been presented for the previous 3 years are as follows.

Audit Observation	Year of the Report	Auditor General's Recommendation	Preventive measures taken by the Audited Institution	Implementation status of the recommendation as at the date of report
(a) As per Clause 26 of the Annexure 03 (Implementation Arrangements) of the Project Appraisal Document of the project, the Project Monitoring Unit (PMU) should obtain the expenditure reports from MoSEW and consolidate as the cumulative consolidated expenditure can be calculated. However, such reports presented with the applications submitted in relation to the sum of Rs. 2,689 million withdrawn from the World Bank in the year under review had not been presented to the audit.	2023	The provisions of the agreement of the Project Management Unit should be adhered.	Based on the monthly expenditure reports submitted by the Department of Samurdhi, the Project Management Unit (PMU) prepared and submitted the Consolidated Expenditure Report to the World Bank. This submission was in accordance with Clause 26 and 27 of Annexure 03 of the Project Appraisal Document, and the World Bank has accepted it.	The proceedings had not been made as per the provisions of the agreement of the Project Management Unit.
(b) A fixed asset register had not been maintained by	2023	A fixed asset register should be maintained.	Noted	A fixed asset register had not been maintained

the project. Accordingly, fixed asset amount of Rs.16 million shown in the financial statements could not be satisfactorily verified in the audit.

(c)	According to the records of the project, a total amount of Rs.1.3 million had been paid to the officers of 15 Divisional Secretariats in relation to the computerization of applications. However, sufficient and appropriate evidences had not been presented to the audit to ascertain that the sum of Rs.1.2 million given for the 13 Divisional Secretariats was paid to the respective officers.	2023	Project Management Unit should ensure that the payment had been made to the relevant parties.	Noted and after the computerization of the application was verified from the Aswasuma system, the required funds for making payments to all the relevant officers were sent to the District Secretariats through the SILP based on the request made by the respective Divisional Secretary.	Project Management Unit had not ensured that the payment had been made to the relevant parties.
(d)	According to the sample audit test, a sum of Rs. 1.2 million had been paid to 13	2023	Project Management Unit should ensure that the payment had	Noted	Project Management Unit had not ensured that the payment had been made to

Divisional Secretariats to settle the bills, and the originals of the source documents and vouchers for a total value of Rs. 716,634 that had been paid related to 10 Divisional Secretariats had not been presented.

been made to the relevant parties.

the relevant parties.

- (e) According to the agreement signed with e- Wis on 10 August 2022, the establishment of the Integrated Social Welfare Management System should have been completed by 10 April 2023.
- 2023
- The proceedings should be done according to the agreement of the Project Management Unit.
- Each payment has been made after the recommendation of the review committee appointed as per the Term of Reference (TOR).
- The proceedings had not been done according to the agreement of the Project Management Unit.

However, at the end of the project, only 8 modules out of 12 had been completed and its financial performance had been Rs.15 million or 60% of the total contract value of Rs.25 million. Accordingly, the intended objective of the project had been unable to be achieved.

- | | | | |
|---|---|--|--|
| <p>(f) The transactions of 2021 the Project had not been subjected to audit of Internal Audit Section of the Ministry of Finance.</p> | <p>It is required to comply with the Circular instructions and Financial Regulations.</p> | <p>The Internal Audit division has already been informed by two letters.</p> | <p>The proceedings had not been made in accordance with the Circular instructions and Financial Regulations.</p> |
|---|---|--|--|

10. Disaster Management Sector

10.1 Reduction of Landslide Vulnerability by Mitigation Measures Project

A loan amount of Rs. 14,528 million had been agreed to be given under the Loan Agreement No.0124 of the Asian Infrastructure Investment Bank for the Reduction of Landslide Vulnerability by Mitigation Measures Project which commenced on 01 July 2019, and the contribution of the Government of Sri Lanka was Rs. 3,868.08 million. The project was extended at two occasions and had been scheduled to be accomplished on 31 December 2025.

Some of the significant information on the financial position of the project for the years 2021, 2022 and 2023 is given below. An unqualified opinion had been given by the Auditor General on the financial statements of the project for the 3 years; 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure of the Year	49	262	652
Government Fund	145	754	2,281
Foreign Fund			
Total Assets	1,599	2,658	5,983
Total Liabilities	456	263	141
Total Fund			
From Foreign Loan	757	1,511	3,798
From Local Fund	436	698	1,349

The significant audit observations arising from the audit reports that had been presented for the last 3 years related to the project were as follows.

Audit Observation	Year of the report	Auditor General's Recommendation	Preventive Measures taken by Audited Institutions	Implementation status of the recommendation as at the date of report
(a) Although the Project Steering Committee Meetings should be held once in 02 months as per the Management Service Circular No. 01/2019 dated 15 March 2019, only 01 Committee Meeting had been held in the year under review.	2021, 2022	It is required to comply with instructions given in the Circular.	The Steering Committee Meetings have not been held as per Circular due to various reasons.	02 Project Steering Committee Meetings have been held since the year 2024.

11. Forests, Wildlife and Environment Sector

11.1 Eco-System Conservation and Management Project

For the Ecosystem Conservation and Management Project started on 01 December 2016, under loan agreement number 5792 of the International Development Association, Rs. 7630 million had been agreed to be given as a loan, and the contribution of the Sri Lankan government was Rs. 40 million. The project was extended on one occasion and completed on May 31, 2023.

Some of the important information about the financial position of the project for the years 2021, 2022, and 2023 is shown below, and the auditor general had given a qualified opinion for 2021 and 2022 and an unqualified opinion for the year 2023 to the financial statements of the project.

Year	2021	2022	2023
	(Rs.Mn)	(Rs.Mn)	(Rs.Mn)
Total Expenditure for the year			
Government Funds	38.70	42.50	43
Foreign Funds	4482.82	5763.08	7500
Total Assets	5,313.58	10,223.53	11,601.53
Total Liabilities	144.48	133.01	-
Total Funds	5038.06	9,796.49	11,407.67
By foreign funds	4999.36	9753.95	11,341.27
By local funds	38.70	42.54	66.40

In addition to the facts that led to the submission of those audit opinions, some of the important audit observations arising from the audit reports submitted for the last 3 years related to the project were as follows.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measures taken by Auditee entity	Implementation states of recommendation as at date of the report
Eco Conservation and System Management Project				
01. In the year 2022, 05 activities to improve the living conditions of 105 family units in the Ratugala area of Monaragala district, which were planned to be implemented under the allocation of Rs. 0.72 million through the Department of Wildlife Conservation, were abandoned and another nine tasks that were planned to be completed under the allocation of Rs. 232.93 million had not been completed.	2022	The tasks must be completed within the stipulated project time.	The allocations earmarked for this purpose have been effectively utilized for other purposes.	The planned works related to Rathugala have been stopped midway.
02. Although the course fee charged for the 2017/2018 batch of the Sri Lanka Qualification Guidelines (SLQF) Tier 3 Diploma Course in Wildlife Management conducted by the University of Colombo for 30	2022	Proper guidelines should be followed and activities should be planned in such a way as to minimize costs.	The Wildlife Conservation Department itself will conduct training courses from now on	The department officials were advised to organize such courses in a formal manner so as to minimize the costs in the future.

officers of the Department of Wildlife Conservation was Rs.3,300,000, it was more than that for the 2019/2020 batch. A fee of Rs.15,000,000 was charged in addition to Rs.11,700,000 and the total amount spent for this course was Rs.38,819,579 and the amount spent for one officer was Rs.1,293,333. The fee per student of the SLQF Level 8 Postgraduate Diploma course conducted by the said university was Rs.250,000 and the World Bank's operational guidelines had not been followed while selecting the University of Colombo, the original copies of the invoices related to Rs.21,590,108 paid to the university and original copies of the vouchers related to Rs.12,785,500 were not submitted for audit. Due to the above facts It could not be observed that this was a frugal transaction.

<p>03. While the Original 2023 Contractor had completed more than 50 percent of the construction work of the Forestry Institute with an original estimated value of Rs.1345 million as per the Bill of Quantities (BOQ), 02 new companies had been awarded at an estimated value of Rs.793,534,305 to complete the rest of the works. Accordingly, at the time when the original contractor stops the construction work of the Junior Staff Quarters, Electrical Installations, Painting of Bathroom and Toilet walls to prevent water leakage (Water Proof) and painting of outer walls have been completed to 60 percent. Due to the fact that the completed works were also included in the Quantity sheets and assigned to the new Company, an additional Expenditure of Rs. 8,586,182 had to be incurred'</p>	<p>The officers who were responsible for the overpaid expenses related to the construction carried out under the foreign funded project should be identified and necessary action should be taken.</p>	<p>A committee has been appointed to check whether the construction of the Forestry Institute has been double-checked, and after its recommendations, the recommendations will be implemented.</p>	<p>As of 30 September 2024, the committee's recommendations had not been received.</p>
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<p>04. Part of the equipment purchased for the construction of electric fences around villages and paddy fields in Anuradhapura and Kurunegala districts was given to the relevant societies and the Anuradhapura and Kurunegala Assistant Director Offices of the Department of Agricultural Development. 16 12V (90 Am) batteries, costing Rs. 534,400, were purchased for energizers and equipment worth Rs. 80,740,804 and had been stored insecurely at the Wildlife Office premises in Ritigala, Moragoda, and Maha Dibulwewa at the end of the year under review.</p>	2023	<p>Since the department has informed the audit that the construction, maintenance, or follow-up of the fence will not be done by the Department of Wildlife Conservation, it should be directed to the said department to use this equipment effectively and build and maintain the fence in the desired manner.</p>	<p>In order to streamline the process of constructing the electric fence around the paddy fields, steps have been taken to coordinate the future activities based on the agreement of the Department of Agricultural Development and the relevant district secretaries and It has been advised that the rest of the equipment purchased for the construction of power grids around the villages should be used in the proposal of the Department of Wildlife Conservation.</p>	<p>The rest of the equipment purchased for the construction of fences around the villages is being used for the work of the Wildlife Conservation Department, and by 30 September 2024, the fences around the villages, which were half completed and not yet completed, were not completed.</p>
<p>05. Thieves had stolen 154 rolls of wire and 122 unassessed nuts and bolts valued at Rs. 2,818,200, which were stored insecurely in a temporarily constructed</p>	2023	<p>The investigations should be completed promptly, the responsible officers should be identified and steps should be taken to recover the</p>	<p>Security services will henceforth deal with the security plan for large consignments.</p>	<p>Departmental investigations are over, and judicial proceedings are underway.</p>

shed in the Ritigala Wildlife Office, and the officers responsible for the loss identified the loss. There was no collection.

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| <p>06. Out of the 3183 units of Tension Spring that had been purchased for the construction of electric fence, only 56 units were issued for electric fences, 3127 units worth Rs.7,817,500 were still in the warehouse at the end of the year under review and in case of damage to the electric fence worth Rs. 1,408,500. 09 units of fence voltage alarm with siren and flashlight were also unused in the warehouse of Moragoda Wildlife Beat office.</p> | <p>2023</p> | <p>For the effective utilization of these equipment purchased under foreign funded projects and the work of the Department of wildlife Conservation should be directed and followed up.</p> <p>It has been decided to give the rest of the equipment for the use of the Wildlife Conservation Department.</p> <p>The rest of the equipment is being used for the work of the Department of Wildlife Conservation.</p> |
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12. Power Sector

12.1 Supporting Electricity Supply Reliability Improvement Project

A loan of Rs. 17,392 million under the Loan Agreement No. 3409 of Asian Development Bank was agreed to provide for the Supporting Electricity Supply Reliability Improvement Project which was commenced on 29 June 2017 and the contribution of the Government of Sri Lanka was Rs. 6,836 million. The project was extended and scheduled to be completed on 31 March 2025.

Some of the important information about the financial position of the Project for the years 2021, 2022 and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the Project for the years 2021, 2022 and 2023.

year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expense of the year			
Government contribution	1,191.03	744.63	166.08
)CEB(	2,256.49	3,968.88	4,433.22
Foreign Funds			
Total Assets	9,949.00	15,359.43	19,902.06
Total Liability	298.00	957.66	902.93
Total Funds			
Foreign Loan	7,334.57	11,303.45	15,736.67
Local Funds)CEB(	2,316.41	3,098.31	3,262.44

In addition, several important audit observations arising from the audit reports submitted for the last 3 years regarding the Project were as follows.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Action taken by the Entity to prevent	Current Position
(a) According to the section 80 of the project administration manual, CEB should maintain a project web page that will be updated regularly will include the (i) bidding procedure, bidder, contract awards (ii) Use of funds disbursed under the project and (iii) Physical progress. However, the above requirements had not been fulfilled by the implementing agency.	2023	Action should be taken to comply with the requirement of the project administration manual	Noted. This will be rectified.	CEB has a general Web page and discussions are in progress with IT branch to include the project details to the existing web page.
(b) Package 4 Construction of 285km of 33kV tower lines and 13Nos of two section single Busbar gantries The Project was awarded to contractor on 30 May 2019 and the total contract value	2023 2022 2021	Action should be taken to expedite the works and it is needed monitor the work of contractors closely to achieve the expected outcome.	The solving of third party objections and land clearance issues were expedited through PUCSL. The contractor was instructed to prepare a catch up plan in view of completing	Physical progress of the Project was 66.54 percent as at 30 June 2024.

was USD 40.48Mn. The effective date of this contract is 28 October 2019 and the contract period is 730 days. The schedule date of completion is 27 October 2021. Although more than two years have passed from the initial completion date, the project had not been completed as at 31 March 2024. An extension of time (EOT) had been granted for the three times and the last completion date as per the third EOT is 08 September 2024. As per progress report of 1 quarter of 2024, the physical progress of the contract was 65 percent. The main reasons for the delay were due to Covid epidemic and travel restrictions, material supply delay, slow performance of the contractor etc.

the project before the expiry date of loan and carry out the work accordingly. Works of the contractor site closely monitoring and make sure it is in line with the catch up plan.

(c)	<p>Package 7 Lot A1: Installation of 100 MVar BSC at Pannipitiya Grid Substation</p>	<p>2023 2021</p>	<p>Action should be taken to expedite the works and it is needed monitor the work of contractors closely</p>	<p>Project was on hold due to contractual disputes on Extension of Time, Division of Responsibilities for Testing and Commissioning and Leakages identified in supplied Capacitors. Site work restarted on 01 March 2024 with the discussions restarted with the Contractor on January 2024. Manufacturer agreed to supply replacement capacitors for leakage capacitors identified and new capacitors received to site on 27 June 2024. Disputes on Extension of Time and Division of Responsibilities resolved and time extension granted till 21 December, 2024.</p>	<p>Physical progress was 86.5 percent as at 30 June 2024. By week progress monitoring in action and project is in its final testing commissioning as scheduled and to be completed by 21 December 2024</p>
<p>The Project works were commenced on 01 August 2019 and it was initially expected to complete on 21 January 2021. An extension of time (EOT) had been granted for the four times and the last completion date as per the fourth EOT is 30 April 2022. Fifth EOT has been rejected by the Ceylon Electricity Board due to not submitting the required details by the contractor and the loan disbursements was Rs 97.1 million, USD 1.34 million and EUR 3.4 million as at 2023 December 31.</p>	<p>Although more than three years have passed from the initial completion date, the project has</p>				

not been completed as at 05 March 2024 and site works have been on hold since the date of 19 October 2023. It was on hold for more than three months.

As per Progress report of 01 quarter of 2024, it was mentioned that disputes in testing and commissioning not yet resolved and leakages in installed capacitors has been identified.

Testing
Commissioning
work is in
progress.

(d)	<p>As per the loan agreement, the effective date of the loan (No.3409 SRI) was 29 June 2017 and the initial loan closing date was 31 March 2022, subsequently, the loan was extended by three years in two times and the new loan closing date was 31 March 2025. According to last extension letter, it was mentioned that the loan was cumulatively extended by 36</p>	2023	<p>Action should be taken to expedite the works and it is needed to monitor the work of contractors closely</p>	<p>The funds are expected to be fully utilized before the loan expiration date.</p>	<p>Physical progress of package 4 and 7 Lot A1 were 66.54 and 86.5 percent respectively as at 30 June 2024.</p>
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months and this would be the final extension granted by ADB. However, individual physical progress of package 4 and 7 Lot A1 were 65 and 78 respectively, financial progress were 69 and 74 percent respectively as at 31 March 2024. It was observed that the 35 percent of the physical progress of the package 4 and 22 percent of the physical progress of the package 7 Lot A1 should have to be completed within the balance period of extension period of the contract (12 months).

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| (e) | Although the land acquisition was to be completed in the initial phase of the Project, the acquiring process of the 8 lands was not completed by 31 December 2023. | 2023 2022 2021 | Action should be taken to expedite the land acquiring process. | Management comment had not been submitted. | All legal titles were transferred to CEB and compensation process is in progress. |
|-----|--|----------------|--|--|---|

(f)	Public Enterprises 2021 Circular No PED 01/2018 dated 18 September 2018 of the Ministry of Finance and Mass Media	Need to comply with Circular instructions	As CEB had no vehicles to be allocated to project activities, a few vehicles were supplied under the project scope after getting the approval from a committee established in the ministry of power and energy.	Although the approval of the Line Ministry was obtained, the approval of the Public Enterprises Department was not obtained.
	Two sport utility vehicle and sixteen four wheel driven double cabs had been procured at the cost of Rs. 46.8 million and Rs. 153.5 million respectively during 2019 and 2020. However, the approval of procurement of vehicle had not been sought through the Chairmen and the Secretary to the Line Ministry from the Department of Public Enterprises as required by the Circular.			

12.2 Mannar Wind Power Generation Project

A loan of Rs. 31,104.84 million under the Loan Agreement No. 3585 of Asian Development Bank was agreed to provide for the Mannar Wind Power Generation Project which was commenced on 04 March 2019 and the contribution of the Ceylon Electricity Board was Rs. 8,818.22 million. The project was extended and scheduled to be completed on 30 June 2024.

Some of the important information about the financial position of the Project for the years 2021, 2022 and 2023 is given below and the Auditor General had given an unqualified opinion for year 2021 and qualified opinion for the year 2022 and 2023 on the financial statements of the Project.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expense of the year			
Government Funds)CEB(	274.73	33.78	1,066.22
Foreign Funds	2,727.09	2,046.77	3,459.24
Total Asset	28,339.89	29,249.52	32,691.76
Total Liability	2,658.61	2,359.16	277.87,1
Total Funds			
Foreign Loan	23,245.95	25,292.71	28,751.95
Local Funds)CEB(	2,435.32	1,597.64	2,661.94

In addition, a important audit observation arising from the audit reports submitted for the last 3 years regarding the Project were as follows.

Audit Observation	Year of the Report	Recommendation of Auditor General	Action taken by the Entity to prevent	Current Position
<p>(a) A sum of Rs. 1,024.1 million had been incurred by the CEB for the replacement of four damaged blades of the plant in November 2021, after handing over the wind power station to the CEB and commissioning. However, without adjusting the above replacement cost in the financial statement of the CEB, it had been accounted in the work in progress of the Project.</p>	2023	Capital expenditure incurred after the handing over the assets to CEB should be accounted in the books of CEB.	An amount equivalent to USD 3,025,406 being the cost of replacing four nos. of damaged wind turbine blades due to lightning strikes had been withhold from the final retention payment to the EPC contractor.	This matter is still in dispute. This will be treated suitably after a firm resolution is made.

12.3 Green Power Development and Energy Efficiency Improvement Investment Programme (Tranche I)

A loan of Rs. 23,330.48 million under the Loan Agreement No. 3146 and 3147 of Asian Development Bank was agreed to provide for the Green Power Development and Energy Efficiency Improvement Investment Programme (Tranche I) which was commenced on 13 July 2014 and the contribution of the Ceylon Electricity Board was Rs. 5,184.55 million. The project was extended and scheduled to be completed on 13 July 2024.

Some of the important information about the financial position of the Project for the years 2021, 2022 and 2023 is given below and the Auditor General had given a qualified opinion on the financial statements of the Project for the years 2021, 2022 and 2023.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expense of the year			
Government Funds(CEB)	414.33	527.17	(380.84)
Foreign Funds	1,369.54	4,476.14	8,120.91
Total Asset	15,594.52	20,960.07	29,050.98
Total Liability	899.17	743.17	1,091.56
Total Funds			
Foreign Loan	11,423.61	16,358.48	24,481.85
Local Funds (CEB)	3,271.73	3,858.41	3,477.56

In addition, several important audit observations arising from the audit reports submitted for the last 3 years regarding the Project were as follows.

Audit Observation	Year of the Report	Recommendation of Auditor General	Action taken by the Entity to prevent	Current Position
(a) Part 01 – Hydro Power Generation Developed and Connected to the Grid Construction of the Moragolla Hydro Power Plant	(i) Lot A1 – 2023 Preparatory 2022 Works 2021	Action should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.	The Resident camp, Diversion-road construction works are still not completed. Currently, no work in progress at site due to financial issue of the contractor.	Steps have been taken to terminate the contract.
<p>The contract was awarded on 24 April 2018 and it was initially expected to complete on 06 May 2020. An extension of time (EOT) had been granted for the four times and the last completion date with time extensions is 13 July 2024.</p> <p>Although more than three years had been passed from the initial completion date, the project has not been completed even as of 31 December 2023 and had experienced significant delays due to poor contractor performance.</p> <p>Further, as per the</p>				

ADB mission report, the contract's physical progress as at 30 October 2023 was 77.7% which is same as the progress even as at 31 December 2023 and no progress has shown for the period of two months as per the available information.

<p>(ii) Lot A2- Main 2023 Civil Works 2022 The contract was 2021 awarded on 04 October 2019 and it was initially expected to complete on 14 September 2023. An extension of time (EOT) had been granted for the two times and the last completion date with time extensions is 13 July 2024.</p>	<p>Action should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.</p>	<p>Currently, Powerhouse superstructure concreting, Dam concreting, Tunnel lining, Switchyard works are in progress.</p>	<p>The Covid 19 pandemic situation delayed the mobilization of the contractor until April 2020. Thereafter lockdown and curfew imposed in the Country affected the Project activities seriously.</p>
<p>(iii) Lot B- 2023 Mechanical 2022 and Electrical 2021 Facilities The contract was awarded on 30 May 2020 and it was</p>	<p>Actions should be taken to expedite the activities and it is needed to monitor the activities closely to achieve the expected outcome</p>	<p>Powerhouse Turbines, Generators & Accessories, Spillway Gates manufacturing works are completed at China and transportation works to site will be</p>	<p>As of 30/09/2024 the progress of work is 85%. In the Power House all major equipment such as the Generator, Turbine, are in</p>

initially expected to complete on 30 November 2023. An extension of time (EOT) had been granted for the one time and the date of planned completion with time extensions is 13 July 2024.

Physical progress as at 31 December 2023 was 54.1% where a significant deviation with expected performance of 82.4%. progress as at 31 March 2024 was 61%.

commenced soon.

progress.

- | | | | |
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| <p>(b) According to the loan agreement and the implementation schedule of the facility administration manual, Project was expected to complete by 2019. However, even after more than four years from the initial completion date, overall physical and financial progress of the Moragolla Hydro Power project as at 31 December 2023 was 64% and 47%</p> | <p>2023</p> <p>Actions should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.</p> | <p>Physical Progress of the Project as at June 2024 was 75.2% and the expected Physical Progress of the Project as at the Loan Closing date of 13 July 2024 is 97.5%.</p> | <p>Physical progress as at 13/07/2024 was 77% and the financial progress 70.22% respectively.</p> |
|--|---|---|---|

respectively. Further, physical progress of the Project as at June 2024 was 73%. According to the ADB Mission Report, no further extensions on the loan period granted and any further financial assistance for the work done beyond the loan closure is required to be sourced from alternative resources. As a result, aims of the overall programme to access clean and reliable power supply by enhancing clean power generation as per Cabinet Memorandum dated 7 May 2014 which addresses an urgent need of the country would not be achieved as expected.

(c) Allocation of the 2023 Green Power Development and Energy Efficiency Improvement Investment Programme (Tranche I) for the year under	Actions should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.	Given the reasons outlined in the above packages, fully utilizing the funds before the loan expiration date was not feasible.	USD 66.46 million had been utilized from the ADB Loan for Moragolla hydro power project, which is 70.22%.
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review was Rs. 14,966 million and out of that only Rs. 7,740 million had been utilized during the year. Further, according to the Facility

Administration

Manual, out of allocation US\$ 180 million, (ADB and AFD funds) only US\$ 102.45 million (57% of allocated funds) had been utilized as at 31 December 2023. The ADB loan agreement were signed on 20 November 2014 and became effective on 02 February 2015. Eventhough more than eight years had been passed from the effective date of the loan agreement, funds allocated by the agreement would not be fully utilized even as of the loan expiry date of 13 July 2024. As a result Project objectives to access clean and reliable power supply by enhancing clean power generation

would not be
achieved as
expected.

- (d) According to the 2023 Actions should be According to the USD 66.46 million
Facility taken to expedite Facility Administration had been utilized
Administration the works and it is Manual allocation for from ADB Loan
Manual, the needed to monitor Moragolla Hydro for Moragolla
country's long term the work of Power Project was US\$ hydro power
challenge is to contractors closely 113.86 million and out project.as at
reduce high to achieve the of that only US\$ 44.41 13/07/2024, which
dependence on expected outcome. million had been is 70.22%
expensive fossil fuel utilized as at 31
energy and demand December 2023.
growth has been
mostly met by
expensive oil-fired
thermal plants.
However, major
component of this
project which
addresses the above
matter would not be
achieved the
expected progress.
According to the
Facility
Administration
Manual, total
allocation of Part 1-
Hydropower
Generation
Developed and
Connected to the
Grid was US\$
128.53 million and
out of that only US\$
46.42 million had
been utilized as at 31
December 2023.

- (e) Eventhough the total 2021
 actual CIF value of
 the imported 3
 vehicles was USD
 58,446 equivalent to
 Rs. 8.9 million, as
 per the Bill of
 Quantities of the Lot
 B2 of the part 2 of
 the project, USD
 158,065 equivalent
 Rs.24 million had
 been allocated for
 import 3 vehicles.
 However, the total
 amount in the Bill of
 Quantities had been
 paid to the
 contractor.
 Accordingly, it was
 observed that the
 Project had incurred
 an uneconomic
 expense amounting
 to Rs. 15.1 million
 on procurement of
 vehicles.
- Necessary actions
 should be taken to
 procure assets on
 actual cost in
 future.
- Eventhough price of CEB is obliged to
 the vehicle as per the pay to the
 CIF and offered price contractor
 by the contractor is according to the
 different, CEB has an bid price of the
 obligation to pay the contract
 contractor according to agreement.
 the bid price of the
 contract agreement.

12.4 Green Power Development and Energy Efficiency Improvement Investment Programme (Tranche II)

A loan of Rs. 27,985.45 million under the Loan Agreement No. 3483 and 3484 of Asian Development Bank and Credit Facility Agreement No. 102201 of Agence Francaise de Development was agreed to provide for the Green Power Development and Energy Efficiency Improvement Investment Programme (Tranche II) which was commenced on 10 July 2017 and the contribution of the Ceylon Electricity Board was Rs. 11,822.80 million. The Project was extended and scheduled to be completed on 30 June 2024.

Some of the important information about the financial position of the Project for the years 2021, 2022 and 2023 is given below and the Auditor General had given a qualified opinion for the years 2021 and 2022 and an unqualified opinion for the year 2023 on the financial statements of the Project.

Year	2021	2022	2023
	Rs. million	Rs. million	Rs. million
Total expense of the year			
Government Funds(CEB)	2,454.33	2,760.81	1,419.35
Foreign Funds	7,403.11	4,995.44	8,375.38
Total Asset	28,017.51	36,758.82	44,992.30
Total Liability	2,487.19	3,314.31	1,714.63
Total Funds			
Foreign Loan	20,920.02	25,937.63	34,351.43
Local Funds (CEB)	4,610.28	7,506.87	8,926.23

In addition, several important audit observations arising from the audit reports submitted for the last 3 years regarding the Project were as follows.

Audit Observation	Year of the Report	Recommendation of Auditor General	Action taken by the Entity to prevent	Current Position
<p>a) Package 8 Lot B Augmentation of Ambalangoda 132/33 kV Grid Substation, Augmentatation of Pannala 132/33kV Grid substation and Supply of 2 Spare Transformers of 132/33kV 31.5 MVA</p>	2023	<p>Action should be taken to expedite the works and it is needed monitor the work of contractors closely to achieve the expected outcome.</p>	<p>The Project extension was granted up to June 2024. The Contracts was closely monitored considering the loan validity period and was able to complete all major works in end June 2024.</p>	<p>Project was completed on 30.06.2024. Eventhough the Project was completed on 30 June 2024, it had not been handed over and not connected to national grid.</p>
<p>Only three months time have to complete the Project. As per the loan extension letter, the loan closing date of 30 June 2023 had been extended to 30 June 2024. both loans are cumulatively extended by 24 months with this extension and this will be the final extension granted by ADB. Commitment charges will arise in future, due to works beyond the loan closing date. The commitment to ensuring to complete the Project timely by expedite the Project works.</p>				

(b)	Package 9: 220kV Switching Station at Kerawalapitiya	2023 2022	Action should be taken to expedite the works and it is needed monitor the work of contractors closely to achieve the expected outcome.	The progress of the project was seriously affected by COVID19 pandemic and specially negative economic situation of the country during this period.	Eventhough, the Project was completed on 31 May 2024, it had not been handed over to CEB.
<p>The Project works was commenced on 14 August 2020 and expected to be complete 14 August 2022. Extension of time had been given until 27 February 2024. Even after more than one years from the initial completion date, physical progress was 96 per cent. As per the 1 quarter progress report 2024, the main reason of the physical progress delay was due to COVID 19 pandemic, closing of international airport and travel restrictions. Also detail design finalization was delayed due to non-response of original GIS manufacture in China, material shortage in the market and issues arranging the manpower for the site works were major issues delayed this Project.</p>					

- (c) Eventhough the 2023 physical progress of 5 packages out of 7 packages was 100 percent completed as at 31 March 2024, the vehicles related to those completed packages had not been transferred to Ceylon Electricity Board up to 31 May 2024. 45 vehicles worth of Rs.430.7 million own to the CEB had been remained with the Project for the year under review without returning or handling over the some vehicles to the CEB.
- Vehicles assigned to the completed packages should be handed over to the CEB.
- All PMUs managed to use the existing vehicles for the rest of the packages.
- Step will be taken to transfer other vehicles to respective branches with the proper approval of the CEB Management.

13. Health Sector

13.1 Additional Financing for COVID - 19 Emergency Response and Health System Preparedness Project

The Additional Financing Project for COVID-19 Emergency Response and Health System Preparedness, which commenced on 23 July 2020, involved a loan agreement under No. 67270LK with the International Development Association for a loan amounting to USD 41.09 million equivalent to Rs. 7,803.87 million. The project's activities were planned to be completed by 31 December 2023.

The following are significant details about the financial status of the project for 2021 and 2022. Concerning the financial statements of the project for these two years, the Auditor General issued an unqualified opinion for 2021 and a qualified opinion for 2022.

Year	2021	2022
	Rs.	Rs.
	Million	Million
Total Expenditure for the Year	831	277
Total Assets	831	277
Total Liabilities	831	277
Total Funds		
Through Foreign Loans	831	277

In addition to the reasons that led to the issuance of the qualified audit opinion, several significant audit observations related to the project, raised in the audit reports submitted for the past two years, are outlined below.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) The government had entered into a loan agreement with the International Development Association to provide a Rs. 5,000 allowance and essential goods worth Rs. 10,000 to those who lost their livelihoods due to lockdowns and curfews in the country. Accordingly, the International Development Association had provided Rs. 9,887 million for the above allowances, while the government had spent Rs. 12,249 million. However, information regarding the disbursement of funds provided by the International Development Association had not been made available for the audit.	2021	A report should be maintained to separately identify the use of government and World Bank funds.	The relevant loan agreement was amended on 20.01.2021. The allocations provided by the General Treasury to District Secretaries were government funds and, therefore, have not been recorded as funds provided under World Bank assistance.	These allocations were provided using government funds, which were later reimbursed by the World Bank.
(b) Although Rs. 276.98 million was paid during four months for	2022	All necessary evidence required to	Under the supervision of Social Services	The updating of beneficiary information

13,849 kidney patients listed in the waiting list, no evidence was presented for audit to confirm that an internal control system was in place to ensure that the funds were paid to the correct kidney patients.

confirm the accuracy of the payments should be submitted for audit.

Officers, updates are carried out through Divisional Secretariats.

Therefore, all records, including patient applications and medical reports, are maintained by the respective Divisional Secretariats.

Based on the number of beneficiaries submitted by the Divisional Secretariats, the National Secretariat for Persons with Disabilities prepares lists to allocate funds to District Secretariat offices.

Subsequently, the accounts division of this ministry disburses funds to the District Secretariats based on the recommendations of that secretariat.

continues as before, while the allocation of funds is directly credited by the Ministry of Finance to the District Secretariats. Subsequently, the District Secretariats transfer the funds to the beneficiaries' accounts through the respective Divisional Secretariats.

13.2 The Health and Medical Services Improvement Project

The estimated total cost for the Health and Medical Services Improvement Project, initiated on 18 October 2018, is Rs. 16,559 million, equivalent to JPY 11,352 million. Under Loan Agreement No. SL.P118 with the Japan International Cooperation Agency, a loan amounting to Rs. 15,519 million, equivalent to JPY 10,639 million, was agreed upon. The remaining Rs. 1,040 million is expected to be financed by the Government of Sri Lanka. Although the project was planned to be completed by 20 October 2025, its activities had been halted midway since April 2023.

Some important information regarding the financial status of the project for the years 2021 and 2022 is presented below. In relation to the financial statements of the project for the years 2021 and 2022, the Auditor General provided both an unqualified opinion and a qualified opinion, respectively.

Year	2021	2022
	Rs.	Rs.
	Million	Million
Total Expenditure of the year	236	50
Total assets	489	538
Total Liabilities	489	538
Total funds		
Through foreign loans	331	437
Through domestic funds	65	89

In addition to the reasons that led to the issuance of the qualified audit opinion, several significant audit observations related to the project, raised in the audit reports submitted for the past two years, are outlined below.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) According to the provisions of the Ministry of Health, the construction of a ten-story building at the Badulla Provincial General Hospital was handed over to the Central Engineering Consultancy Bureau in 2018, and it was scheduled to be completed in April 2021. However, as of March 2023, the construction had not been completed. Although equipment worth Rs. 1,271 million was planned for installation, it had not been possible to implement it due to the unfinished construction.	2021	Action should be taken to achieve the expected progress.	To improve the progress of construction, the Project Management Unit has in accordance coordinated with the Ministry of Health, the Central Engineering Consultancy Bureau, and the Ministry of Finance.	According to the 2022 RAMP decision, this project was halted. However, in accordance with the NOR approval, work was resumed in September 2024
(b) Construction at the Trincomalee District General Hospital, Kandy, Kurunegala, Anuradhapura Teaching Hospitals, as well as the	2021	Action should be taken to achieve the expected progress.	A project action plan was prepared before the loan approval. The loan was approved by	Work has commenced under the funds received with JICA approval for Trincomalee and Anuradhapura.

provision and installation of equipment at Colombo, Kalutara, Peradeniya MLT training schools and the Colombo Biomedical Engineering Division were planned to be carried out according to the 2019 action plan. However, as of March 2023, at least the tendering process had not been initiated.

JICA on 19 October 2018. Work has started at Kurunegala and The Project Kandy Teaching Management Hospitals according to the Unit was established on 01 revised scope. January 2019. Additionally, Due to a five-month delay work has commenced at from the Colombo, Attorney Kalutara, and General's Peradeniya MLT Department and training schools, the global as well as at the COVID-19 Colombo Biomedical project the Engineering implementation Division, schedule was according to the revised. revised scope.

- (c) By the end of 2021, although the relevant initial activities related to the contracts being executed by the project were carried out, no steps were taken to call for tenders. However, JPY 872 million was allocated for project consultancy.
- 2021
- Action should be taken to achieve the expected progress.
- All detailed plans and tender documents for the construction packages were prepared and submitted to JICA for approval through the Department of External Resources on 17 June 2022. Unfortunately, approval for the tender announcement has not yet been granted. As
- Work has commenced according to the revised Scope.

stated in the
audit query, the
financial
progress of the
consultancy
services is
accurate. Due to
the suspension of
the loan
disbursement,
the physical
progress remains
at 30 percent.

13.3 The Health System Enhancement Project - Additional Financing

The estimated total cost of the additional financing for the Health System Enhancement Project, which commenced on 17th November 2021, is US\$ 123 million equivalent to Rs. 24,538.5 million. Out of this, US\$ 113 million equivalent to Rs. 22,543.5 million (US\$ 110 million as a loan under agreement No. L 4121 and US\$ 3 million as a grant under agreement No. G 9222 – SRI) has been agreed to be financed by the Asian Development Bank. The remaining amount of Rs. 1,995 million is expected to be financed by the Government of Sri Lanka. The project is scheduled to be completed by 31st May 2026.

The Auditor General provided unqualified opinions for the financial statements of the project for the years 2021 and 2022, while qualified opinion was given for the years 2023.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure for the Year	2,022	657	8,070
Total Assets	2,452	3,619	13,972
Total Liabilities	2,452	3,619	13,972
Total Funds			
Foreign Loans	1,996	4,684	9,504
Foreign Grants	-	-	-
Domestic Funds	-	-	70

Several significant audit observations related to the project, raised in the audit reports submitted for the past three years, are outlined below.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) Contracts were awarded for the procurement of 4,400 items belonging to 19 types of medical equipment at a cost of Rs. 2,328 million. During the procurement of 1,725 items related to 11 types of medical equipment, the standard specifications published on the Biomedical Engineering Services Division's website were revised. However, acceptable reasons and approvals obtained for such revisions were not submitted for audit. In the procurement of 50 Defibrillators, a specification was unfairly amended to favor a single bidder, resulting in the inability to award the contract to the lowest bidder who met all other requirements and specifications. This caused a financial loss of Rs. 37 million.	2021	The procurement process should be conducted with transparency.	Although there are bidders capable of meeting the specifications stated in the bidding document, they have not participated in this procurement.	The specifications for these items were prepared by the Biomedical Engineering Services Division, and based on their conclusion, bidders capable of meeting the approved specifications were available. However, they did not apply for this procurement. The procurement process for these relevant equipment was carried out by the Biomedical Engineering Services Division, while payments were made solely through the project under Retroactive Financing.

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| <p>(b) According to Financial Regulations 753(1) and 753(2), the issuing officer must prepare the issuing order using Form General 141, while the receiving officer must prepare the receiving order using Form General 219. However, the relevant officers had failed to act accordingly concerning medical equipment valued at Rs. 2,597 million.</p> | <p>2022</p> | <p>Compliance with financial regulations is essential.</p> | <p>The distribution of equipment related to COVID-19 care, based on the requirements identified by the Biomedical Engineering Services Division, is carried out by them. However, we had no control over the distribution of these items</p> | <p>The relevant equipment was procured through tenders by the Biomedical Engineering Services Division, with payments made under the Retroactive Financing mechanism of the Additional Financing for Health System Improvement Project. All relevant documents, including receipt orders, stock registers, and other required records, were duly submitted for payment processing.</p> |
| <p>(c) Out of 25 ICU ventilators purchased from a private institution in 2021 on a payment basis after supply and installation, 5 units provided to the National Hospital and 1 unit provided to the Biomedical Unit had not been installed as of 08 May 2023. However, a bank guarantee valued at Rs. 4.3 million was obtained on 15 March 2022, and the final payment of Rs. 18</p> | <p>2022</p> | <p>Proper plans should be prepared and to minimize the loss.</p> | <p>Payments have been made based on the written recommendation of the Director of the Biomedical Engineering Services Division, and installation is carried out once the equipment is ready for setup.</p> | <p>Since the relevant locations were not ready for installation at that time, payments were made based on the recommendation of the Biomedical Engineering Division. The project director has confirmed that the equipment has been installed at the appropriate locations.</p> |

million for this transaction was made on 24 March 2022. It was observed that the validity period of this bank guarantee expired on 23 April 2023, and no action was taken to extend its validity, which could potentially result in a loss to the government.

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| <p>(d) According to the performance report prepared for the year 2023, although a sum of Rs. 1,324.23 million was allocated for 07 activities, it was not possible to carry out those activities during the year 2023.</p> | <p>2023</p> | <p>Activities must be completed within the stipulated timeframe.</p> | <p>The planned activities were delayed due to various reasons.</p> | <p>Under the Japan Fund for Poverty Reduction (JFPR), a grant of USD 3 million was provided. However, the following issues were encountered.</p> <p>(a) Despite inviting bids twice for the procurement of 25 ambulances for the Suwasariya Foundation, awarding the tender has not been possible to date.</p> <p>(b) As the tender for these ambulances was not awarded, life-support equipment could not be procured.</p> <p>(c) Although plans were made to construct 20 ambulance garages for the Suwasariya</p> |
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Foundation, delays occurred due to the time taken to allocate space within police stations, prepare bills of quantities (BOQs), and obtain consultancy services from the respective provincial building departments. Consequently, the planned activities could not be carried out in 2023.

Additionally, the contract for procuring equipment and audio-visual tools for training Suwasariya officials could not be awarded in 2023

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| <p>(e) The estimated value of five projects in the Uva Province is Rs. 243.5 million. However, as the contract value amounted to Rs. 378 million, it exceeded the total estimated value by 55 percent.</p> | <p>2023</p> | <p>During the revision of estimates, bids must be re-invited.</p> | <p>the Bids were called at the peak of the economic crisis, during which all bidders submitted their proposals considering the unprecedented rise in material prices. These bids significantly exceeded the engineer's estimates. However, the engineer's estimates were</p> | <p>The BOQ bills for these contracts were prepared by the consultancy firm prior to the economic crisis of 2022. However, the bids were called during the period of the economic crisis, and due to the sharp increase in raw material prices, the bid prices were significantly higher than the prices outlined in the BOQs. These BOQ</p> |
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revised during documents were this period, revised based on taking into updated prices and account the compared with the fluctuations in BOQs of the lowest material costs. bidders. Following Before awarding these comparisons the contracts to with the new BOQs, the lowest the Technical responsive Evaluation bidders, the Committee provided revised estimates recommendations were compared only after conducting with the bid the necessary prices. evaluations

- (f) According to the performance report for the year 2023, a sum of Rs. 837.68 million was allocated for civil works in 42 hospitals under the Primary Healthcare Development Program across four provinces. However, only 11 percent of the allocated funds were utilized during the year under.
- 2023 Actions should be taken to achieve the targets.
- The slow progress of construction activities during the year has been caused by delays in awarding civil works contracts and various issues faced by contractors, resulting in underutilization of the allocated funds.
- Under the Primary Healthcare Development Program, development activities are taking place in 42 hospitals. Development work has been completed in 20 hospitals, while development is ongoing in 3 hospitals. Bids have been called for 12 hospitals, and development work for 7 hospitals has been decided not to initiate due to a lack of funding.
- In 2023, the priority under the project was given solely to the

					procurement of essential medicines.
(g)	A sum of Rs. 1,010.14 million was allocated for 127 Field Health Centers (FHCs) in 2023. However, only Rs. 56.01 million was utilized.	2023	Actions should be taken to achieve the targets.	Due to delays in awarding and slow progress in repairs and improvements, the funds were underutilized in 2023.	Under the project, development plans have been made for 127 Field Health Centers. Development activities have been completed for 35 of these centers, while work is ongoing for 10 centers. Bidding procedures are being conducted for 53 centers. Development work for 29 other centers has already been carried out under different funding sources, and as they are not part of the new construction project, actions have been taken to discontinue them.
(h)	According to the Cabinet decision number AMP/12/1602/509/005-11 dated 05 December 2012, it was decided to purchase the annual required surgical gauze for government hospitals from local manufacturers. However, in 2022, the Medical Supplies	2023	Laws and rules should be adhered to.	Through the Health Systems Improvement Project, the Medical Supplies Division had decided to purchase 12 million meters of gauze, and approval was granted by the Additional	The Medical Supplies Division had decided to procure 12 million surgical gauze under the Health Systems Improvement Project, and approval was granted by the Additional Secretary (Procurement). However, during a meeting with local suppliers led by the

Division had made arrangements to import surgical gauze worth Rs. 268 million through the Health Systems Enhancement Project, amounting to 3 million meters.

Secretary (Procurement) on 05 August 2022.

However, the request from local suppliers was temporarily suspended by the Honorable Minister. In a meeting held at the Ministry of Health on 19 August 2022, it was decided to procure a stock of 3 million meters of gauze as a three-month buffer stock in preparation for future challenges.

Honorable Minister, it was agreed to temporarily suspend the relevant orders due to a request from the local suppliers.

However, during a meeting held at the Ministry on 19 August 2022, it was agreed to order 3 million meters of surgical gauze as Buffer Stock. Approval for this was granted by the Secretary of the Ministry.

13.4 Health Systems Enhancement Project

The **Health Systems Enhancement Project**, which commenced on 01 December 2018, includes a concessional loan of USD 37.5 million, equivalent to Rs. 5,813 million under Agreement No. 3727-SRI (COL) and a grant of USD 12.5 million, equivalent to Rs. 1,938 million under Agreement No. 0618-SRI (SF), totaling USD 50 million, equivalent to Rs. 7,751 million. The Asian Development Bank had agreed to provide this financing. Although the project was initially scheduled to be completed by 30 November 2023, the timeline has been extended twice, with the project now expected to be completed by 31 May 2025.

Presented below are some key financial status of the project for the years 2021, 2022, and 2023. The Auditor General issued unqualified opinions on the project's financial statements for all three years, 2021, 2022, and 2023.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure for the Year	2,669	1,230	1,011
Total Assets	5,746	7,663	7,721
Total Liabilities	5,746	7,663	7,721
Total Funds			
Through Foreign Loans	3,478	4,328	7,688
Through Foreign Grants	826	1,076	1,305
	292	353	453
Through Local Funds			

Several significant audit observations related to the project, raised in the audit reports submitted for the past three years, are outlined below.

	Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a)	Violating the provisions of the Supplement 32 issued for the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka, an amount of Rs. 1.5 million was paid as allowances to the members of the Procurement and Technical Evaluation Committees through this project during the years 2020 and 2021.	2021	This amount should be recovered from the responsible parties.	These payments were made with the approval of the Project Operations Committee.	Relevant officers have been informed via letters to recover these payments, and a portion of the amount has been successfully recovered by the project. Steps have been taken to send reminders to the remaining officers.
(b)	According to the recommendation in the Management Audit Report for the year 2020, a sum of Rs. 1.66 million, which had been paid without any valid reason or authority, had not been recovered from the responsible parties as of 30 April 2022.	2021	This amount should be recovered from the responsible parties.	It has been decided to request the beneficiary to reimburse the said amount and, in the event the beneficiary fails to do so, to conduct an investigation at the ministry level and implement the recommendations accordingly.	A sum of Rs. 1.66 million, being the bid bond, was recovered due to the withdrawal of the bid by the bidder during the validity period of the bid prices. Subsequently, considering a letter sent by the bidder indicating their ability to supply again, this amount was refunded to the bidder.

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| (c) | <p>Nine construction contracts valued at Rs. 109 million were abandoned midway, out of which six contracts were awarded to a single contractor. Although a sum of Rs. 690,834 was recovered as performance bond amount, the relevant details were not submitted for audit. Furthermore, due to an ongoing legal case related to a contract valued at Rs. 38 million, it was not possible to terminate the contract or recover the performance bond.</p> | 2022 | <p>Necessary measures must be taken to ensure the project is completed within the stipulated timeframe.</p> | <p>Although we requested the bank to encash a bond valued at Rs. 2,682,182 of a contractor, the contractor has filed a legal case. On April 22, a performance bond amounting to Rs. 1,578,000 was encashed. We have already informed the contractor to pay the remaining value of Rs. 1,974,233 related to this contract. Additionally, approval from the Asian Development Bank has been sought to complete another contract.</p> | <p>The performance bonds related to 06 contracts were credited to the Ministry in 2022. The contract for the improvement of the Konwewa Primary Health Services Center and the contract for the construction of the Haputale Regional Hospital were completed, and the performance bonds were encashed in 2022. The Project Director indicates that a mutual termination occurred for the construction contract of the AIDEN Medical Unit at Ratnapura Hospital.</p> |
| (d) | <p>According to the procurement conditions, the actual consultancy service period was supposed to be from March 2023 to June 2024 (15</p> | 2023 | <p>Steps should be taken to commence the activities within the stipulated timeframe.</p> | <p>It was decided to halt the consultancy process due to the costs exceeding the estimated prices and the</p> | <p>With the agreement of the Asian Development Bank, it was decided to award the RDC company the contract for</p> |

months). However, as of the audit date, 25 June 2024, a consultancy firm had not yet been selected for the construction of the National Communicable Disease Institution Complex.

lack of funds, and to consider other available alternatives for the consultancy work. constructing the laboratory for the National Communicable Disease Institution, based on the approval of the consulting procurement committee appointed by the Cabinet of Ministers.

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| (e) | For the purpose of public health awareness, 09 vans were purchased in 2021 at a cost of Rs. 87 million. However, due to the failure to purchase the necessary communication systems to be installed in the vans, it was observed that the vans were not used for the intended purpose and were instead being utilized for other activities. | 2023 | Assets should be utilized for their intended purposes. | The use of vehicles to achieve the intended objectives can only be certified by the Ministry of Health and the Provincial Health Authorities. | The Project Director states that the communication systems, which were to be installed in the 09 vans purchased for public health awareness purposes, have been procured, installed in the vehicles, and subsequently provided to the relevant provincial authorities. |
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13.5 Health Systems Response Project (HSRP)

The Asian Infrastructure Investment Bank (AIIB) has agreed to provide USD 100 million, equivalent to Rs. 35,000 million, to finance the Health Systems Response Project, which commenced on 18th July 2022, under loan agreements numbers L 0081 A and L 0124A. The project is expected to be completed by 31st December 2025.

Some key information regarding the financial status of the project for the years 2022 and 2023 is presented below. The Auditor General has also provided unqualified opinions on the financial statements of the project for the years 2022 and 2023.

Year	2022	2023
	Rs. Million	Rs. Million
Total Expenditure for the Year	5,216	348
Total Assets	7,266	7,077
Total Liabilities	7,266	7,077
Total Funds		
Through Foreign Loans	7,268	6,478

Several significant audit observations related to the project, raised in the audit reports submitted for the past two years, are outlined below.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) According to Financial Regulation 835(2)(a), when renting a building, the head of the department must be satisfied that the building is required for a specific purpose within the scope of the provision and that no suitable government-owned buildings are available for that purpose. However, when renting this building, it had not been considered whether there was sufficient space available in the premises owned by the ministry or in office premises already rented.	2023	Laws, rules, and regulations should be adhered to.	Discussions were held with the Additional Secretary (Procurement) to secure space. However, a favorable response to our request was not received.	The agreement for the Health System Response Project (HSRP) was signed in June 2022. However, due to insufficient space within the Project Management Unit for the staff recruited for the 2022 HSRP, it was requested to allocate the office premises and other facilities currently used by the Covid-19 Vaccine for Recovery Project to the HSRP. Despite this request, a favorable response was not received. As a result, the project initiated a tender process to rent a building at a monthly rate of Rs. 350,000. However, based on the Government Valuation Report, the monthly market rent was determined to be Rs. 210,000,

and the arrangement was suspended accordingly.

Furthermore, multiple discussions were held to obtain the required space in the Medi House building, but no favorable response was received. During a meeting held on 02 March 2023, under the chairmanship of the Secretary to the Ministry, this matter was discussed, and it was decided to acquire a separate building for the HSRP project at market rates.

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| <p>(b) According to the procurement notice published on the relevant website dated 28 February 2023, it was stated that the final lease value should be based on the valuation of the Government Valuation Department. However, no valuation had been obtained from the Government Valuation Department when determining the lease value. This is observed to be a</p> | <p>2023</p> | <p>Financial Regulations should be adhered to.</p> | <p>During the meeting chaired by the Secretary to the Ministry, it was instructed to procure at market prices as the valuation ratios do not align with market price levels.</p> | <p>Although a valuation report was obtained during the first procurement process for this project, it had to be rejected due to the estimated value being significantly lower than the market price. Therefore, in a meeting chaired by the Secretary to the Ministry, it was instructed that procurement activities should be</p> |
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violation of the conditions stated in the procurement notice and the Financial Regulations.

carried out based on market prices.

It became evident during the comparison of the prices that it was not possible to align the evaluated value with the market prices.

13.6 Primary Healthcare Systems Strengthening Project - Component

Under loan agreement number 8878, the International Bank for Reconstruction and Development (IBRD) had agreed to provide a loan of US\$ 200 million , equivalent to Rs. 31,588 million , for the Primary Healthcare Systems Strengthening Project, which commenced on 19th January 2019. This project is implemented under two components: Component I and Component II. For Component I, the IBRD had agreed to provide US\$ 185 million, equivalent to Rs. 29,220 million, for strengthening healthcare at the central and provincial levels. Although it was initially planned to be completed by 31st December 2023, the project's deadline has been extended to 30th June 2024.

Some important information about the financial status of the project in the years 2021 and 2022 is presented below. Additionally, the Auditor General provided qualified opinions on the project's financial statements for both 2021 and 2022.

Year	2021	2022	2023
	Rs.	Rs.	Rs.
	Million	Million	Million
Total Expenditure for the Year	3,564	5,250	12,442
Total Assets	7,843	13,092	26,338
Total Liabilities	7,843	13,092	26,338
Total Funds			
Through Foreign Loans	7,785	13,006	26,318

In addition to the reasons that led to the issuance of the qualified audit opinion, several significant audit observations related to the project, raised in the audit reports submitted for the past two years, are outlined below.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) According to the reports of the Treasury Operations Department, as of 31 December 2021, the total amount paid by the funding agency for Component I was Rs.17,359 million. Of this, only Rs. 7,962 million was released by the Grand Treasury for Component I of the project. However, according to financial statements, only Rs. 7,785 million was received from the Treasury for Component I, leaving a discrepancy of Rs. 177 million. The reasons for that discrepancy were not presented for Audit. Furthermore, according to the financial statements, the total amount spent on Component I of the project over the past three years was Rs. 7,733 million, and the remaining balance of	2021	All funds received for the project should be disclosed in the financial statements, and the reasons for any discrepancies should be identified and disclosed	As disclosed in the financial statements, Rs. 7,785 million has been received from the Grand Treasury for Component I, which is accurate. However, there is a discrepancy between the amount received and the amount disbursed. It is notified that once the detailed information is ascertained, it will be presented promptly.	The audit recommendations have not been implemented up to 31.12. 2024.

Rs. 9,397 million in the Grand Treasury was not disclosed in the financial statements.

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| (b) | In accordance with Section 8(1) of the Value Added Tax (Amendment) Act No. 09 of 2021, which came into effect on 20 May 2020, goods related to actions taken in response to the COVID-19 pandemic were exempt from the Value Added Tax. However, in violation of these provisions, a total amount of Rs. 11 million was paid to 18 suppliers as Value Added Tax for the purchases made after 20 May 2020. | 2021 | An investigation should be conducted in this regard, and necessary actions should be taken to collect the funds from the responsible parties. | Unknowingly, value added tax was paid despite the exemptions granted by the Act. A report was submitted to the Department of Inland Revenue to verify that the total tax paid on the added value to the suppliers was disclosed. In the future, suppliers will be questioned on this matter, and the ministry has instructed the relevant authorities to take the necessary actions. | Rs. million. 1.22 | Payments have not been confirmed yet. |
| (c) | The main objective of the project is to identify and manage non-communicable diseases. However, of the provisions allocated for the North Western Province, 50 percent of the total sum amounting to Rs. 168 million was spent on the construction of buildings for | 2021 | Priority should be given to the tasks provided by the project. | When funds are received through the Primary Health Care System Strengthening Project, activities will be identified to improve the quality and increase the utilization of primary healthcare services, through provincial councils. As a result, | | Such expenses have been continuously incurred, but no actions have been taken regarding them. |

provincial health institutions. Under this project, Rs.68.3 million was spent on the construction of 17 buildings that were not included in the selected primary healthcare institutions.

some activities will be identified from hospitals that cannot be verified.

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| <p>(d) According to the amended annexes 02 of the loan agreement, the Ministry of Health and the Provincial Ministry of Health are required to implement the development and monitoring components of the training/capacity development plans under Component II. However, for all 9 provinces, a total of Rs.112.98 million was spent on training/capacity development under Component I.</p> | <p>2021</p> | <p>This expense should be borne under Component II.</p> | <p>It is accepted. Although capacity building has been identified as an activity under Component II, and a plan for capacity building was prepared recognizing the need to improve capacity under Component II, it could not be implemented.</p> | <p>-Do -</p> |
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13.7 Primary Healthcare Systems Strengthening Project - Component II

The International Bank for Reconstruction and Development (IBRD), under loan agreement number 8878 LK, agreed to provide a loan of US\$ 15 million, equivalent to Rs. 2,368.27 million, for the Primary Healthcare Systems Strengthening Project - Component II, which commenced on 2nd February 2019. However, in the year 2022, this loan amount was reduced to US\$ 6 million. The project was originally scheduled to be completed by 31st December 2023.

Some important information about the financial status of the project in the years 2021, 2022, and 2023 is presented below. Additionally, the Auditor General provided qualified opinions on the project's financial statements for both 2021 and 2022, but an unqualified opinion for 2023.

Year	2021	2022	2023
	Rs.	Rs.	Rs.
	Million	Million	Million
Total Expenditure for the Year	249	100	118
Total Assets	566	649	1,073
Total Liabilities	566	649	1073
Total Funds			
Through Foreign Loans	444	444	880

Significant audit observations related to the project, raised in the audit reports submitted for the past three years, are outlined below.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
<p>The contract for the provision, installation, operation, and maintenance of 600 digital signaling systems for primary health care centers was awarded on 07 May 2021, at a contract value of Rs. 77 million, exempt from taxes. However, 599 units of systems worth Rs.77 million were ordered for only 599 units, and by 31 December 2021, only 584 systems, costing Rs.75 million, were received.</p> <p>Nevertheless, since these systems were purchased without a proper feasibility study regarding the necessary infrastructure at primary health care centers, various issues and obstacles were encountered during their installation. By the audit date of 22 May</p>	2022	The project should be implemented as planned.	<p>Since this is an innovative initiative in the public sector, the project was initially planned by the Project Management Unit (PMU) as an expanded operation to be implemented alongside the project, and the World Bank has granted approval for this. The remaining 285 digital signaling systems will be connected to the central transmission system, and the Director of Health Education will take action in the near future. For this purpose, an operational committee has been established in collaboration with district officials to closely monitor the functionality of the digital signaling system.</p>	The project is currently in operation, and district coordinators have been appointed. However, by 31 December 2021, there is no specific information regarding the number of hospitals where it was operational. Additionally, a follow-up procedure has not been established for this purpose.

2023, it was revealed that 285 out of the 600 digital signaling systems were not in proper working condition.

13.8 Responsive COVID-19 Vaccination for Recovery Project

Under loan agreements number 4083 SRI and 4084-SR (SF) with the Asian Development Bank, a loan of US\$ 150 million, equivalent to Rs. 30,000 million, was agreed to be provided for the Responsive COVID - 19 Vaccination for Recovery Project , which commenced on 19th August 2021. The Sri Lankan government's contribution to the project was US\$ 11.85 million, equivalent to Rs. 2,370 million. While the project was initially planned to be completed by 30th June 2024, it was actually concluded on 31st December 2023.

Year	2021	2022	2023
	Rs.	Rs.	Rs.
	Million	Million	Million
Total Expenditure for the Year	3,600	19,145	260
Total Assets	3,600	22,791	34,477
Total Liabilities	3,600	22,791	34,477
Total Funds			
Through Foreign Loans	3,600	19,144	236
Through Domestic Funds		0.5	24

Some important information about the financial status of the project in the years 2021, 2022, and 2023 is presented below. Additionally, the Auditor General provided unqualified opinions on the project's financial statements for both 2021 and 2023, but a qualified opinion for 2022.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) It was brought to the notice of the Project Director that 1,781,684 Sinopharm vaccine units were nearing expiration. In response, the Project Director stated that the Chief Epidemiologist of the Epidemiology Unit had been notified about the expiring vaccine stock for further action. However, as of March 2024, information on the actions taken regarding the vaccine stock has not been submitted for audit. The value of the expiring vaccine stock is 11 percent of the total cost spent on purchasing the vaccines.	2023	Vaccines should be purchased according to a proper plan.	At the time of signing the loan agreement, it was planned to cover a population of 4 million by administering 03 doses of the vaccine. Although the people were eager to get vaccinated at the onset of the COVID-19 pandemic, public interest waned as the situation improved, leading to fewer people coming forward for vaccination as expected. As a result, the entire stock of vaccines could not be utilized. By 14.02. 2023, a total of 1,781,684 doses of the Sinopharm vaccine remained at the central vaccine warehouse. Of these, 35 doses (7 vials) were sent to the Colombo	The Secretary of Health instructed the Chief Epidemiologist to consult with the Chief Accountant (Stores Verification) regarding the inspection of the remaining Sinopharm vaccines in the central vaccine warehouse and to proceed with necessary actions related to the disposal of expired vaccines.

National Hospital
and the Colombo
Municipal Council.
Additionally,
1,781,649 expired
Sinopharm vaccine
doses were securely
stored in the central
vaccine warehouses.

13.9 COVID-19 Emergency Response and Health Systems Preparedness Project and the Second Additional Financing for COVID-19 Emergency Response and Health Systems Preparedness Project

The COVID-19 Emergency Response and Health Systems Preparedness Project, and the Second Additional Financing for COVID-19 Emergency Response and Health Systems Preparedness Project, was initiated on 04 April 2020. The estimated total cost of this project was US\$ 209.11 million, equivalent to Rs. 41,717.45 million. Of this amount, the International Bank agreed to provide a loan of US\$ 61.51 million, equivalent to Rs. 12,271.25 million under loan agreement number IDA 6875-LK. Additionally, the International Bank for Reconstruction and Development (IBRD) agreed to provide a loan of US\$ 146.60 million, equivalent to Rs. 29,446.20 million under loan agreement number IBRD 9237-LK. The project was scheduled to be completed by 31 December 2023

Presented below is some important information about the financial status of the project in 2021, 2022, and 2023. For the years 2021 and 2023, the Auditor General provided unqualified opinions on the project's financial statements, while for 2022, a qualified opinion was given.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure for the Year	23,403	2,347	915
Total Assets	35,842	73,179	67,294
Total Liabilities	35,842	73,179	67,294
Total Funds			
Through Foreign Loans	35,797	70,693	65,150
Through Domestic Funds	7	9	15

Several significant audit observations related to the project, raised in the audit reports submitted for the past three years, are outlined below.

Audit Observation	Year of the Report	of Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) According to Section 8(1) of the Value Added Tax (Amendment) Act No. 09 of 2021, medical equipment used for COVID-19 pandemic management has been exempted from VAT with effect from 20 May 2020. However, contrary to these provisions, the sample audit revealed that VAT amounting to Rs. 96.3 million had been paid to 51 suppliers for procurements made in 2020 and 2021.	2021	These tax amounts must be collected.	It is agreed with the observation.	The annexes 1 and 3 presented by the audit paragraph are relevant to this project. Accordingly, the VAT amount paid for 37 suppliers, in total, is Rs. 40,883,710.63. Letters were sent via registered mail to confirm whether the VAT amount had been paid by all these institutions. If the VAT had not been paid, it was instructed that the amount be reimbursed to the project. Accordingly, 26 institutions have confirmed the payment of the VAT amount to the Department of Inland Revenue. (The total confirmed amount is Rs. 38,873,184.) The relevant files for these letters are provided below.

1.ERHSP/COVID
-19/FIN/2023/45 -
Recovery of VAT
Paid

2.
ERHSP/COVID-
19/FIN/2024/04 -
VAT Refund

(b) During the year under review, Rs. 824.26 million equivalent to USD 4.11 million had been directly paid to relevant suppliers from project funds for the procurement of medical supplies. In two instances, goods receipt notes (GRNs) for medical supplies costing Rs. 192.05 million, supplied by two private companies, mentioned the United Nations Children's Fund (UNICEF) as the supplier. The reasons for this were not presented for audit.	2021	This matter should be looked into, and necessary steps should be taken accordingly.	It is agreed with the observation.	During discussions held with the former Honorable State Minister, the Secretary to the Ministry, Project Director, Financial Officer, Project Officers, and the Medical Supplies Division, it was confirmed that the GRN issued for the project in the future would be accurately recorded. However, physical inspections have not been carried out in this regard.
(c) For the medicines purchased by the State Pharmaceuticals Corporation in 2022, a sum of Rs. 7,660	2022	Payments should be made based on the original documents.	Please note that the procurement mechanism is based on the provisions provided during the	Actions were taken based on the provisions provided for the procurement during the country's

million was paid based on nominal invoices, utilizing project funds. However, it was observed that some of these medicines were received in 2023 according to the distribution orders, and the commercial invoices and stock receipts were issued only after payments were made.

country's emergency situation. The clarification made by the State Pharmaceutical Regulatory Authority is attached herewith.

state of emergency. It has been communicated that payments will be made in the future based on the original documents.

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| (d) | A total of 1,500 face guard units were procured for the National Dengue Control Unit at a cost of Rs. 29 million. The said stock had not been released, and its validity period expires on 16 December 2025. | 2023 | Action should be taken to minimize the loss. | Please note that the release of this pesticide is done with a proper control according to the requirements of the institutions, and it is not released solely based on the expiry date. It should be considered that this requirement may change due to the spread of dengue in epidemic and pandemic conditions. | Although it has been communicated that the Director of the Dengue Eradication Unit should inquire about this matter, information confirming that such an inquiry was made has not been presented for investigation. |
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13.10 The Third Additional Financing for the COVID-19 Emergency Response and Health Systems Preparedness Project

The Third Additional Financing for the COVID-19 Emergency Response and Health Systems Preparedness Project, initiated on 27 September 2021, secured US\$100 million, equivalent to Rs. 21,000 million in funding under loan agreement number 9296-LK with the International Bank for Reconstruction and Development. The project was scheduled to conclude on 31 December 2023.

Presented below are some key financial details of the project for the years 2021, 2022, and 2023. The Auditor General issued unqualified opinions on the project's financial statements for both 2021 and 2023. However, a qualified opinion was given for the year 2022.

Year	2021	2022	2023
	Rs. Million	Rs. Million	Rs. Million
Total Expenditure for the Year	16,102	1,858	NO
Total Assets	16,103	17,962	28,072
Total Liabilities	16,103	17,962	28,072
Total Funds			
	16,102	1,858	-
Through Foreign Loans			

The following several significant audit observations are raised in the audit reports submitted over the past three years concerning the project related to the above-mentioned opinions.

Audit Observation	Year of the Report	Recommendation of the Auditor General	Preventive measure taken by the Audited firm	Implementation of the recommendation as at the date of the report
(a) By 31 July 2022, a total of 6 million vaccine doses, costing Rs. 6,956 million, had been issued to health institutions for vaccination. These vaccines should be used within 30 days. However, information regarding the remaining stock was not provided for audit. According to the conducted audit test check, 23,159 vaccine doses worth Rs.31 million were removed from use by 147 health institutions due to exceeding the 30-day period.	2021	Information regarding the quantity used or the remaining quantity that was not utilized should be presented for audit.	Not commented.	Although it has been informed that clarifications should be sought from the Director of the Epidemiology Division regarding this, no actions have been taken accordingly.

<p>(b) A total of 8 million vaccine doses, valued at Rs. 10,737 million (57% of the total purchased stock), were not issued for vaccination and expired by 31 July 2022. These doses were stored at the National Blood Transfusion Centre and the Epidemic Disease Unit due to expiration. Subsequently, on 13 May 2022, the World Health Organization recommended extending the shelf life of the unopened vaccines, which were stored at temperatures between 60 and 90 Celsius for emergency use, from 9 to 12 months. According to the instructions of the National Medicines Regulatory Authority, the Director General of Health Services had extended the shelf life of 7 million vaccine doses to 12 months. However, by 05 September 2022, 316,926 of the vaccine doses extended up to 12 months were issued</p>	<p>2021 Actions should be taken to use the vaccine in accordance with the instructions.</p>	<p>• Based on the recommendation of the World Health Organization regarding the shelf life extension of unopened vials stored at temperatures between 60 and 90 Celsius, and after reviewing the information received from the manufacturer, the National Medicines Regulatory Authority (NMRA) has recommended extending the shelf life of 04 vaccine categories until 31 October 2022.</p> <p>- Do -</p> <p>• Approval for one category of the vaccine has not been granted as of yet. During an inquiry made in this regard by</p>
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for vaccination.

the Ministry of Health, the National Medicines Regulatory Authority (NMRA) informed that the suppliers have not yet provided the necessary information to extend the shelf life of this specific category.

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| <p>(c) From 01 December 2020 to 27 September 2021, the project had paid Rs. 372 million for medical equipment purchased by the State Pharmaceutical Regulatory Authority. However, relevant information regarding the purchase of medical equipment was not presented for audit.</p> | <p>2022</p> | <p>These documents should be with the project management unit.</p> | <p>The relevant procurement documents, purchase orders, stock, receipts, invoices, payment vouchers, and distribution lists can be obtained from the State Pharmaceutical Corporation for auditing.</p> | <p>According to the project evaluation report related to the third additional financing, provisions have been made to reimburse the funds paid under Rectoactive Finance. Accordingly, this amount has been reimbursed to the State Pharmaceutical Corporation for the expenses incurred by them.</p> |
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