

Jaffna and Kilinochchi Water Supply and Sanitation Project - 2023

The audit of the consolidated financial statements of the Jaffna and Kilinochchi Water Supply and Sanitation Project for the year ended 31 December 2023 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4.05 of Article IV of the Loan Agreement No.2710-SRI (Ordinary Operations) and Section 4.03 of Article IV of the Loan Agreement No.2711-SRI (SF) (Special Operations) dated 08 February 2011 and Section 4.03 of Article IV of the Loan Agreement No. 3603-SRI and No. 3604-SRI(Additional financing) dated 15 December 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank . My comments and observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, the Ministry of Water Supply and Drainage, presently the Ministry of Water Supply and Estate Infrastructure Development is the Executing Agency and National Water Supply and Drainage Board, Provincial Irrigation Department of Northern Province and Local Authorities in the Northern Province are the Implementing Agency of the Project.

The objectives of the Project are to improve water supply and sanitation infrastructure for residents living in the areas of the Project and to protect and manage the water resources of the Jaffna Peninsula. As per the Loan Agreements, the total estimated cost of the Project under the components implemented by the National Water Supply and Drainage Board amounted to US\$ 147.45 million equivalents to Rs. 16,474.59 million. Out of that US\$ 76.45 million equivalents to Rs. 8,541.76 million was agreed to provide by the Asian Development Bank and US\$ 48 million equivalents to Rs. 5,363.04 million was agreed to provide by the Agence Francaise De Development. The balance of US\$ 23 million equivalents to Rs 2,569.79 million required to be contributed by the Government of Sri Lanka. However, Loan from Agence Francaise De Development had been cancelled on 06 October 2015 due to some activities of the Project had been suspended, because of the restructuring the Project scope as water source from Irranamadu tank to a Desalination Plant. Therefore, additional loan agreement had been entered by Government of Sri Lanka with Asian Development Bank on 15 December 2017. As per the Additional Loan Agreements, the total estimated cost for activity of the Project amounted to US\$ 153 million equivalents to Rs. 23,256 million. Out of that US\$ 120 million equivalents to Rs. 18,240 million was agreed to provide by the Asian Development Bank. The balance of US\$ 33 million equivalents to Rs. 5,016 million required to be contributed by the Government of Sri Lanka. The Project commenced its activities on 15 February 2011 and scheduled to be completed by 14 August 2017. Subsequently, period of the Project had been extended up to 30 June 2026.

1.3 Opinion

In my opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit.

I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Physical Performance

For the purpose of providing safe drinking water and improved sanitation to people in Jaffna and Kilinochchi Districts in Northan Province of Sri Lanka, the activities of the Project had been implemented under 03 main components namely Improving Water Supply and Sanitation Infrastructure, Strengthening Jaffna Water Resource Management and Building Capacity of NWSDB. The Project commenced its activities on 15 February 2011 and scheduled to be completed by 14 August 2017. After the restructuring the Project scope as water source from Irranamadu tank to a Desalination Plant Subsequently, period of the Project had been extended up to 30 June 2026.

2.1 Physical progress of the activities of the Project

No	Project component	Activity	As at 31 December 2023		Audit issue	Management Response	Auditor's Recommendations
			Expected physical performance	Performance achieved			
			Percentage	Percentage			
	Improving Water Supply and Sanitation Infrastructure		100	78	The construction work was not completed within the contract time frames, and appropriate measures should have been taken to address the situation.	NWSDB and the Project team took effort to make a temporary pumping arrangement to cater water to Jaffna Peninsula within July 2024 until complete the M&E SCADA Contract to satisfy desired outcomes for the people	Unnecessary delays should be avoided.

(i)	Improving Water Supply and Sanitation Infrastructure	Sea water Reverse Osmosis Desalination Plant	100	88	The Design, Build, and Operational Contract of this component was awarded and the agreement was signed in 2021 at Rs. 14,559 million to complete by September 2023. Despite the expectation of achieving 100 percent physical progress, the actual physical progress stood at 88 percent as at 31 December 2023.	The Contractor will provide the Treated Water from SWRO Plant (Initially 6,000 m ³ /Day) for the Flushing and Disinfection work of Transmission Mains and Distribution Mains from 18 th June 2024.	Works of this component should be completed within the scheduled period.
(ii)	Improving Water Supply and Sanitation Infrastructure	Laying of water distribution network	100	100	Although the pipeline system, high water towers, and other necessary constructions to provide drinking water to the Nainathivu, Analaitivu and Eluvaithivu islands were completed the project benefits have not reached to the people due to distribution failures.	Distribution network for those three Islands were completed and handed over to O&M section of the NWSDB and they put this on operation and catering water is already started to the public.	Expected targets should be achieved.
(iii)	Improving Water Supply and Sanitation Infrastructure	Laying of water distribution network in Jaffna City area.	100	72	The contract of Rs. 3,160.20 million for distribution of treated water in Jaffna city, covering a distance of 264 km, was awarded to a private company on 08 January 2021 to complete by 23 January 2023 however it was noted that only 191 kilometers of pipeline had been	The target of distribution of treated water in Jaffna city could not be achieved due to unavoidable reasons.	Expected targets should be achieved.

laid representing
72 percent physical
progress.

(iv)	Improving Water Supply and Sanitation Infrastructure	Mechanical, Electrical and SCADA package	55	5	The contract, 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.	The design work is in progress and physical progress was 5%. The M&E SCADA Contract scheduled to be completed by July 2025.	Works should be completed within the scheduled period
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3. Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
3.1	Refundable Deposit Rs. 73 million 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.	As DN 01 and TWTM 01 had the MOU and Contract Amendment respectively for the flushing and disinfection, there may be rectification works during the flushing and disinfection. Therefore, PMCIU will request the RDA after completion of the same. For TWTM 02, PMCIU is taking necessary action with RDA in order to reimburse the deposits from RDA.	Action should be taken to settle the Deposits.
3.2	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. 3,694 million for 07 years and the operation 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.	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 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.	Action should be taken to find a fund source to keep maintenance and sustainable use of this plant
3.3	The contractor of the Sea Water Reverse Osmosis Plant has claimed USD 12.7 million, On 22 May 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. - According to the Section 8 particular condition of contract, part A sub clause 13.8 of FIDIC condition the contractor is not entitled to claim price inflation adjustments.	Agreed	Should be complied with conditions of agreement and the other rules, regulations, Decisions and Guidelines when taking decisions to make payments.

- As per Sub clause 13.8 of the Contract Data within the Design, Build, and Operation contract executed with the Asian Development Bank, the contractor has explicitly agreed not to adjust for the effects of inflation in the design and build phases. Therefore, altering these conditions without the approval of the Asian Development Bank, claim of price inflation adjustments would not be permissible.

3.4	An additional amount of US\$ 4 million has been allocated for the 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.	The NWSDB has requested NPD to coordinate with funding agencies to obtain necessary funds.	Action should be taken to implement the contract.
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4. Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendation
	The general treasury had to pay Rs. 464.8 million as commitment charges on undisbursed loan balance from 2016 to 2023 without having any economic benefit to the country.	The contract delay led to this situation.	Action should be taken to minimize this kind of losses.