

Kalu Ganga Water Supply Expansion Project (1) - 2023

The audit of financial statements of the Kalu Ganga Water Supply Expansion Project (1) 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 19 of Project Memorandum of the Loan Agreement No.SL-P 117 dated 07 July 2017 entered in to between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. My comments and observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Programme

- 1.3** According to the Loan Agreement of the Project, then Ministry of City Planning and Water Supply, presently the Ministry of Water Supply and Estate Infrastructure Development is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to provide safe water and increase water supply efficiency in the southern area of the Western Province by expanding Kalu Ganga water supply facilities and restructuring water distribution networks, thereby contributing to the improvement of the living conditions of its people. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 39,067 million equivalent to Rs.55, 338 million and out of that Japan Yen 31,810 million equivalent to Rs.45, 056 million was agreed to be financed by the Japan International Cooperation Agency. The Project commenced its activities in December 2020 and scheduled to be completed by April 2025.

1.4 Opinion

In my opinion, the accompanying 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 my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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

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

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

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

2. Physical Performance

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 Percentage	Performance achieved Percentage			
(a)	Package 1,2,3,4,5 respectively Construction of Intake and Water Treatment Plant, Supply and Laying of Transmission Mains and Distribution Mains, Construction of Ground reservoirs and pumping stations, Supply and laying of secondary Distribution for Millaniya, Supply and laying of balance part of Distribution feeder mains and secondary mains, Supply installation of DMA Equipment	Consultancy service for detail design , preparation of drawings and tender documents.	100	8	(i) The detailed design, preparation of drawings, and tender documents should be completed by June 2019. The tender process had not been completed by the end of the year under review. (ii)The construction work should have to be commenced in June 2020 and be completed by September 2023. However, The all constructions were at the pre-construction stage even at the end of the year under review. (iii)The construction was scheduled to commence in June 2020 and be completed by September 2023. However, all those packages are still in the pre-construction period as of 31 December 2023.	JICA temporarily suspended disbursements starting in April 2022, and the PMU office was also temporarily suspended. This has seriously affected the progress of the project. JICA temporarily suspended disbursements starting in April 2022, and the PMU office was also temporarily suspended. This has seriously affected the progress of the project. JICA temporarily suspended disbursements in April 2022 due to the prevailing situation in the country. As a result, the consultancy contract and the PMU office were also temporarily suspended.	Actions should be taken to restart the project, complete the outstanding work, and fulfill the objectives of the beneficiaries. Actions should be taken to restart the project, complete the outstanding work, and fulfill the objectives for the beneficiaries. Actions should be taken to restart the project, complete the outstanding work, and fulfil the objectives of the beneficiaries.

3. Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
Construction works of this project had been awarded four consultancy company by the National Water Supply and Drainage Board for 558 million Japanese Yen and Rs. 773 million on 30 January 2020. Although the contract was scheduled to be completed within 65 months by 19 June 2025, 36 months out of 65 contract period had passed as at 31 December 2023, the physical performance remained at a low level of nearly 8 percent.	JICA temporarily suspended disbursements in April 2022 due to the prevailing situation in the country. As a result, the consultancy contract and the PMU office were also temporarily suspended.	Actions should be taken to restart the project, complete the outstanding work, and fulfil the objectives for the beneficiaries.

4. Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
Amount of Rs. 84 million had been paid on 31 December 2020 to a local consultant, and the outstanding advance amount of Rs. 50 million remained with the contractor by the end of the year under review. The value of bills payable to the contractor on the same day was Rs. 282 million.	As per the consultancy contract agreement, contractor has a right to request delay payments. If the delay payments claimed by the contractor, it will be analyzed loss of advance payments and PMU shall be claimed the said lost amount	Action should be taken to avoids the losses.