

Kandy City Wastewater Management Project - 2024

The audit of financial statements of the Kandy City Wastewater Management Project for the year ended 31 December 2024 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the Loan Agreement No. SL- P 99 dated on 26 March 2010 entered between the Democratic Socialist Republic of Sri Lanka and the Japan Bank of International Cooperation presently known as 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 Project

According to the Loan Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of Urban Development, Construction and Housing 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 improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment, and disposal of waste water in Kandy City, including rehabilitation of sanitation facilities in densely populated areas, and thereby enhance the standard of living, health, and well-being of the people in the area. As per the loan agreement, the estimated total cost of the Project was Japanese Yen 17,278 million which equivalent to Rs.21,982 million and out of that Japanese Yen 14,087 million equivalent to Rs.17,922 million was agreed to be financed by the Japan International Cooperation Agency. The balance amount of Japanese yen 3,191 million equivalent to Rs. 4,060 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 03 February 2010 and scheduled to be completed by September 2017. Subsequently, the period of the Project had been extended up to 31 December 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 2.1 of this report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2024, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified Opinion

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

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

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

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

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

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

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

I also:

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

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

2 Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiencies	Response of the Management	Auditor's Recommendations
As per the Interim Payment Certificates (IPC) 36 and 53, the retention money related to the package II and package III contracts as at 31	The necessary journal entry has been prepared. Steps are being taken to ensure this entry is	Difference of balances should be reconciled.

December 2024 was Rs. 387,912,977 and as included in the accounts to per the financial statements it was recorded as maintain accuracy and Rs. 536,722,165, resulting in a difference of completeness. Rs. 148,809,188 between two balances.

• **Physical Performance**

For the purpose of, improve the living environment and water quality of Mahaweli river through better sanitation facilities, the activities of the Project had been implemented under 05 main components, namely Consultancy, Wastewater treatment Plant (Pumping station, Force main, Discharge line, Sludge drying facility), Sewage collection system, Manhole pumping station, Property Connections, Facility of Densely Populated Areas.

3.1 Physical progress of the activities of the Project

	Project component	As at 31 December 2024		Audit issue	Management Response	Auditor's Recommendations
		Expected physical performance Percentage	Performance achieved Percentage			
(a)	Package 1 – Design and Construction of WasteWater treatment plant, Main Pumps Station	100	100	The plant with a capacity of 14,000m ³ /day was commissioned in March 2020, and it was being functioned at an average capacity of 6,100m ³ /day at the audited date of 31March 2025.	The PMU has taken steps to arrange all possible measures to expedite the progress.	Actions should be taken to complete the due works to achieve the expected targets.
(b)	Package 2 –Design and Construction of Sewer Network	100	98	The overall progress of this component, including planning, procurement, and execution, was delayed by nearly nine years compared to the initial plan. The overall progress as of the end of the year under review was 98 percent	Only defect rectification and other minor works remaining.	Due works should be completed to achieve the desired objectives.

(c)	Package 3-Property Connections	100	66	More than seven years of delay from the initial plan only 5,227 properties out of 9,276 planned were connected to the sewer network as of 31 December 2024.	Project delayed due to uncontrollable external environment impacts.	Actions should be taken complete the due works to achieve desired objectives.
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3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
The claim for extension of time and associated costs of Rs 5,048 million made by the contractor of the project had been rejected by the project Engineer and it was referred to the Dispute Adjudication Board (DAB). The DABs decision to pay RS 1,745 million was also rejected by the Board. In June 2020, the contractor proposed an amicable settlement to the Board and it was decided to pay LKR 1,304.69 million and the decision was sent to the ministry for approval. However, the secretary appointed TEC recommended to pay only LKR 256.22 million on 27 March 2024. However the matter is not solved even at the Audited date of 25 August 2025.	All the documents were forwarded to the Secretary to the Ministry including AGs letter for further action and advice on 17 March 2025, and the matter has been referred to the Standing High-Level Procurement Committee. A request has since been sent to the Secretary to the Ministry for the committee's decision and the signed minutes of the meeting, which are expected to be received shortly for further necessary action.	NWSDB should strengthen its contract management practices to avoid prolonged disputes and this issue should be resolved without financial burden to the Government.

3.3 Extraneous Activities

Audit Issue	Response of the Management	Auditor's Recommendation
Due to the Package 3 contract had not being completed, the polluted water from premises were directly discharged into the Mahaweli River, Mada Ala, and Kandy Lake, causing severe environmental pollution even as of audited date 31 March 2025	The above objective could not be achieved completely due to the inability to provide wastewater connections as planned.	Actions should be taken to fulfil the objectives of the Project.

3.4 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
According to the information submitted, only 07 lands out of 09 which had been used for project had not been acquired even it has passed 21 years since beginning of the land acquisition/purchase process.	Comments had not been received.	Land acquisition process should be expedited.