

Jaffna and Kilinochchi Water Supply and Sanitation Project - 2024

The audit of the consolidated financial statements of the Jaffna and Kilinochchi Water Supply and Sanitation 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 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 Urban Development, Construction and Housing 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 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 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 Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiencies	Response of the Management	Auditor's Recommendations
(a)	According to Interim Payment Certificate No. 44, the value of the completed work was Rs. 2,723,083,339. However, the value accounted under the working progress as work completed was Rs. 2,489,262,268. As a result, the working progress had been understated by Rs. 233,821,071.	Project is currently executing required actions to rectify in General Ledger System for the discrepancy amount to tally with the value of work completed.	Necessary corrections should be done.
(b)	Loan interest payable for the loan obtained under the loan agreement no. L 3604 amounting to Rs. 57,685,624 had not been shown in the financial statements of the year under review. As a result, the current liabilities had been understated by similar amount.	Project hereby informs that the interest charges for Rs 57,685,623.96 will be recorded in General Ledger System without delay.	Appropriate adjustments should be made to correct the error.
(c)	As per the paragraph 39(a) of Sri Lanka Accounting Standards 21, the parity adjustments amounting to Rs. 1,169 million relating to the foreign loan of the project had not been accounted and shown in the financial statements for the year under review.	NWSDB has decided not to account the parity adjustments in the Project's financial statements.	Should be comply with Sri Lanka Accounting standards.

3. Physical Performance

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	Performed and achieved Percentage			
(a)	Distribution network system in Jaffna City area.	100	80	As per the time extension the construction of distribution system should be completed by July 2025.	The PMCIU is actively working to complete the remaining work in the near future	Action should be taken to complete the project without further delay.
(b)	Construction Chunnakan Water Supply Scheme	0	0	It was noted that the contract award process had been temporarily suspended based on decisions made by the Committee on Re-strategizing and Acceleration of Mega Projects	The PMCIU is taking action to obtain Cabinet approval for the implementation of this Scheme.	Action should be taken to complete the project without further delay.
(c)	Mechanical, Electrical and SCADA package	100	18	The completion of the installation of the electrical and mechanical equipment, together with the SCADA system, is critical for making the project fully operational.	PMU has taken the necessary steps to ensure completion of the works.	Action should be taken to complete the project without further delay.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
(a) The 24,000 m ³ /day seawater desalination plant, constructed in 2021 to supply water for the project and completed on 14 October 2024 but as of 25 January 2025 it was producing only 1,161 m ³ /day far below its designed. However, prompt corrective action had not done by the Project Management Unit (PMU) to ensure full operational performance.	The PMCIU is currently implementing the M&E SCADA contract to enable full-scale water supply while also maintaining a temporary arrangement to provide water to the public in the interim.	Action should be taken to fulfil the objectives of the Project within the scheduled time.
(b) A sum of Rs. 3,694 million has been allocated under the contract for seven years of operation and maintenance (O&M) of the seawater desalination plant. However, the loan agreement expires on 30 June 2026, providing funding for only two years of O&M and leaving a significant shortfall for the remaining five years. As no agreement has been made with lending agencies, to extend the loan period.	The ADB has agreed to respond in due course, and PMCIU/JKWSSP is currently preparing the necessary documentation for the loan extension.	Action should be taken to find a fund source to keep maintenance and sustainable use of this plant

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| (c) | Cabinet Decision has taken on 22 December 2020 to directed the Department of External Resources for engage with the Asian Development Bank to secure USD 4 million in additional financing for a renewable energy solution for the seawater desalination plant. Although a preliminary feasibility study identified a solar power plant as the preferred option, more than four years later, no contract for this component had been awarded, and the ADB had not committed funding for the plant’s construction until 03 June 2025. | NWSDDB requested ADB support to construct 10MW solar power plant in the Northern Province. During the ADB mission in April 2025, ADB agreed to review and respond to the government in due course. | The project should be completed as planned. |
| (d) | An ice factory established under the project’s livelihood program to support the fishing community with a reliable ice supply and civil construction had been completed on 29 November 2018. However, the contract for supply, installation, testing, and commissioning of the ice production had been awarded on 5 January 2024 and completed by 31 December 2024. However, a physical inspection on 23 January 2025 revealed that the unit remained non-functional and ice distribution to the fishing community had not yet been commenced. | The project has instructed the contractor to take immediate necessary actions to ensure the smooth functioning of the ice factory. And closely monitoring by the PMCIU in order to hand over to beneficiaries | Immediate action should be taken to achieve the expected objective. |

3.3 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor’s Recommendation
A total of 53 land parcels were identified for acquisition or purchase for the water and sanitation projects the acquisition or purchase process for 30 of these lands had been remained incomplete. For the sanitation component, 16 plots were targeted, under 38(a) order only 14 plots	The PMCIU is continuing the land acquisition process to secure the required lands for the smooth future implementation of the sewerage project	Action should be taken to expedite the acquisition and purchase processes of lands to avoid further delays in project implementation.

had been acquired. Although the sanitation components have been removed from the current project scope, no measures had been taken to safeguard the lands partially acquired.

