

## **Kalu Ganga Water Supply Expansion Project (1) - 2024**

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The audit of financial statements of the Kalu Ganga Water Supply Expansion Project (1) 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 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**

According to the Loan Agreement of the Project, then Ministry of City Planning and Water Supply, 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 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 balance amount of Rs 10,282 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities in December 2020 and scheduled to be completed by April 2025. With the resumption of funding by the Government of Japan from 24 July 2024, the project activities were resumed and it was decided to complete the work in October 2028 according to a revised implementation schedule.

### **1.3 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 2024 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**

The project activities, which consist of five contract packages and the consultancy contract, were originally planned to start in December 2020 and be completed within 65 months. The project and project office activities were temporarily suspended on 28 October 2022, following a recommendation by the RAMP Committee. With the resumption of funding by the Government of Japan on 24 July 2024, project activities resumed. According to the revised plan the project would be completed in October 2028 and only the consultancy

service was scheduled to start in 2024. As per the progress reports, a 63 percent target for the consultancy service activities was achieved during the year under review.

## **2.2 Issue relating to the Project Monitoring unit**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
Although it was necessary to assign specific responsibilities to project officers and develop performance indicators to monitor the fulfillment of their roles, it was observed that such performance indicators had not been prepared. Furthermore, no formal mechanism was in place to measure progress against individual responsibilities on a timely basis.	After re-establishing the project office and appointment of permanent staff for the project, performance indicators and staff duties will be developed.	Monitoring mechanism should be implemented to enhance project efficiency.