

**Greater Colombo Water and Wastewater Management Improvement Investment Programme – Project 02 (Ambathale Water Supply System Improvement and Energy Saving Project– Democratic Socialist Republic of Sri Lanka - The Agence Francaise De Development - Agreement No. CLK 1008-01 P) - 2024**

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The audit of the financial statements of the Greater Colombo Water and Wastewater Management Improvement Investment Programme - Project 02 (Ambathale Water Supply System Improvement and Energy Saving 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 3.4.2 (h) of the Credit Facility Agreement No. CLK 1008-01 P dated 29 September 2014 entered in to between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise De Development. 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 Credit Facility Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of Urban Development, construction & 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 aims at extending water supply access and fostering the water system sustainability for Greater Colombo. As per the Credit Facility Agreement, the estimated total cost of the Project was US \$ 100 million equivalents to Rs.13,000 million and out of that, US \$ 70 million equivalents to Rs.9,100 million was agreed to be financed by the Agence Francaise De Development. The balance amount of US\$ 30 million equivalents to Rs.3,900 million is expected to be contributed by the Government of Sri Lanka. The Project had commenced its activities on 29 September 2014 and scheduled to be completed by 31 December 2019. However, the date of completion of the activities of the Project had been extended four times 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 Programme - Project 2 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 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 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 skepticism 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**

	<b>Accounting Deficiencies / Audit Issue</b>	<b>Amount Rs. million</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	As per the paragraph 39(a) of Sri Lanka Accounting Standard 21, parity adjustments amounting to Rs. 1,253 million relating to the foreign loan of the project had not been accounted in the financial statements of the year under review.	1,253	The Project will include a disclosure to the Financial Statements in the year 2025.	Adhere to the LKAS.
(b)	Three storied building constructed at a cost of Rs. 37.31 million in the Ambathale water treatment plant premises had been handed over to the National Water Supply and Drainage Board on 01 February 2024. However, it had not been capitalized as required by the Sri Lanka Accounting Standards No. 16. As a result, the value of fixed assets had been understated by similar amount.	37.31	The Project will capitalize the three storied accommodation building within the year 2025.	Adhere to the LKAS.

**2.2 Non-Compliance with Laws, Rules and Regulations**

<b>Reference to the Laws Rules and Regulations</b>	<b>Non-Compliance/ Audit Issue</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
Financial regulation no, 507 (1),756	The assets verification had not been done as at 31 December 2024	The Project will be conducted an asset verification during the year 2025	Should be complied with financial regulations.

### 3. Physical Performance

#### 3.1 Physical Progress

The Project had commenced its activities on 29 September 2014 and scheduled to be completed by 31 December 2019. However, the period of the Project had been extended 04 times up to 31st December 2024 due to the failure of the achievement of target within the scheduled Project period. As per the progress report, the overall physical and financial progress of the project as at 31 December 2024 were 91.46 percent and 83.02 percent respectively, even after a lapse of 10 years from the commencement date of the activities of the Project. However, it was observed that the Project had achieved only 9.54 percent of progress in physically during the year under review and components wise progress of the Project are as follows.

Activity	As at 31 December 2024		Audit Issues	Responses of the Management	Auditor's Recommendations
	Expected targets (%)	Target achieved (%)			
Reliability enhancement and energy saving of Ambatale production facilities for saving energy through installation of efficient pumps with appropriate capacities, reducing transmission losses through reduced friction and enhancement of other production facilities.	100	82.07	Risk to complete the Project before the due date.	This Contract was initially delayed due to various uncontrollable reasons it is expected to fully complete by 30 June 2026	Remedial action should be taken to complete the balance works without further delay to avoid additional cost.

#### 3.2 Contract Administration

Audit Issue	Responses of the Management	Auditor's Recommendations
(a) The contract for the Design Review and Construction Supervision Consultancy Service, awarded in 2015 for Rs. 343 million with a 36-month timeline. However the time has	Project is expected to complete by 30 June 2026 and AFD has informed to continue the consultancy contract until the project	The project management should closely monitor the works to achieve the expected targets.

exceeded by 67 months through seven extensions. As of 09 July 2025, its cost has surpassed by Rs. 768 million, more than double the initial budget, and the service continues without formal approval. The Management has failed to address this issue, instead granting continuous time extensions and approving additional payments.

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| <p>(b) The contract for the construction of Gothatuwa 15,000m<sup>3</sup> reservoir and booster pump station with supply and laying of 05 km DI pipes was scheduled to be completed by 06 June 2022. Subsequently, it had given eight time extensions up to 28 February 2025. The overall physical and financial progress was remained at 98.07 percent and 96.61 percent respectively as at 31 December 2024. However, the project progress demonstrates a slow pace.</p>   | <p>The balance work in the snag list will be completed by 03 months period from the date of taking over certificate issued.</p>   | <p>Action should be taken to complete the project as scheduled.</p>                |
| <p>(c) The ICB 05 contract, which makes up about 45% of the total project, was initiated to reliability enhancement of Ambatale production facilities and energy saving through installation of efficient pumps with appropriate capacities with an original completion date of December 31, 2020. However, the contract period has been extended six times, with the latest deadline set for December 31, 2024. As of May 31, 2025, the project had achieved 85% physical progress however only 62% financial progress was reported. The Project Consultancy Committee reported that the project was consistently failing to meet its targets and was also operating without a formal time extension.</p> | <p>The project management has decided to grant the time extension without any additional cost. Accordingly, ICB 05 last EOT is valid up to 30 September, 2025. It is expected to complete the contract by 30 June 2025.</p> | <p>Action should be taken to complete the project as scheduled.</p>                |
| <p>(d) The construction contract of a Staff Resident Buildings for the project at the IDH Hospital premises was</p>  | <p>Based on a signed amendment for a scope change, the new contract</p>   | <p>Action should be taken against responsible parties who violated Procurement</p> |

awarded to a private construction company on 14 November 2019 at a value of Rs. 91.65 million to complete within 365 days. Following a change in the construction scope and after the 490 days from the initially agreed contract day, it was decided to construct three-storied two units' buildings at the Ambatale Water Treatment Plant for the revised contract at a value of Rs.117 million. However, even after four time extensions and 864 days, 28 percent of the contract work was remained and the contract works were mutually terminated on 09 December 2024. It was also agreed that the remaining work would be completed under a separate contract. At the mean time the project had paid Rs. 131 million including the total contract value and price variations.

To complete the remaining work, no estimate had been prepared and approved as per Article 4.3 of the Procurement Guidelines. The Board was obtained three quotations informally from ICB 05 contractor instead of applying open competitive bidding procedure. Based on the committee's recommendation appointed by the Project Director, the contract was awarded to the same unsuccessful contractor for Rs. 45.43 million in order to black list.

Furthermore, it was observed that the total cost incurred for this contract had escalated to Rs. 193 million, representing an increase of approximately 110 percent compared to the original contract.

(e) After water treatment, with incurred huge cost, approximately 19,643 m<sup>3</sup> of backwash water per day is released back into the river. Information was

sum was Rs. 117,310,181. When the contract was mutually terminated as win win solution in 2024, the total certified project cost was Rs. 131 million and Rs. 128.77 million paid excluding financial charges. Due to the approved price escalation the contract sum was exceeded.

Quotations for remaining works were compared with the Engineers Estimate and the lowest was selected to award the Contract.

To get the beneficiary use of this staff quarters, the completion of balance part in short period became a crucial factor. After following proper subcontractor selection procedure, balance work was awarded to the same Contractor.

The backwash recovery system has been designed to overcome this problem. Still the constructions of

Guidelines.

Action should be taken to complete the contract as scheduled and action should be taken against

given by the project revealed that the production cost per m<sup>3</sup> of water at the Ambatale Water Treatment Plant is approximately Rs. 9.59. Considering the delay in the construction of the backwash recovery system, the economic loss incurred is estimated to be approximately Rs. 231 million.

Furthermore, the chemical contained sludge remaining after water treatment, informally discharge still into the water source through a canal system making huge damages to the environment.

this system is ongoing and after completed the construction and started its functioning these issues can be solved.

responsible parties.

- (f) The contract (ICB 05) for the construction of the Elihouse Pump house, intended to supply water at higher pressure to the Elihouse Reservoir, four pumps had been installed. However, as of the audited date, 09 July 2025, the 9 km main transmission pipeline had not been connected. An AFD Mission Report from September 2024 revealed a manufacturing defect in the Y-shaped T-pieces supplied by the ICB 05 pipe supplier was the cause. Despite nine months having elapsed since the identification of this defect, project management has failed to take steps to rectify those issues,
- This will not further delay the Contract progress and completion of the balance work in ground reservoir can be achieved by end of December 2025.
- Action should be taken to complete the project without further delay.

### 3.3 Matters in Contentious Nature

Audit Issue	Responses of the Management	Auditor's Recommendations
<p>The National Water Supply and Drainage Board (NWSDB) initiated a project to boost energy efficiency. This involved replacing old pumps, building new underground reservoirs, and installing larger pipelines to cut down on friction loss. As of the audited date, only 9 out of the 17 new pumps were operational. The four pumps at the Gothatuwa pump house remained uninstalled, while the four pumps at</p>	<p>The expected targets were not achieved as planned. At this stage, project output for energy saving cannot be observed but at completion, energy audit will be done to check the energy saving of the project.</p>	<p>An investigation should be conducted to find out the reason for not done the feasibility study before start the project, failed to select a suitable contractor.</p>

the Elihouse pump house, though installed, were not in service due to a 1,200 mm transmission pipeline connection issue. Furthermore, only 11 of the 16 planned flow meters and 6 of the 11 surge vessels had been installed, and the SCADA system was not commissioned, thereby compromising the project's energy-saving objectives.

### 3.4 Idle/ Unutilized/ Underutilized resources

Audit Issue	Responses of the Management	Auditor's Recommendations
Due to poor project progress, only 60 percent of the total credit facility had been utilized by 31 December 2024. The lending agency had stopped the disbursement, and as a result, the government had to pay an aggregate amount of Rs. 390.4 million as commitment charges for the undisbursed balance uneconomically.	AFD suspended fund disbursement due to the economic crisis. The project is continuing with Treasury funds under a Cabinet-approved pre-financing agreement based on AFD's recommendation. The last AFD mission confirmed they will provide the total loan balance and requested continued Treasury funding until then.	Project fund should be utilized effectively.

### 3.5 System of control

Audit Issue	Responses of the Management	Auditor's Recommendations
Transaction of the Project had not been subject to the Internal Audit of the Water Supply and Drainage Board, as required by the Circular No. 05 of 26 July 2010 of the Department of Management Audit.	Financial transaction of the Project for the year ended 31.12.2024 was not subjected to internal audit up to date.	Circular instructions should be followed.