

Anuradhapura North Water Supply Project Phase I - 2018

The audit of financial statements of the Anuradhapura North Water Supply Project Phase I for the year ended 31 December 2018 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 14 of the Project Memorandum of the Loan Agreement No.SL-P 110 dated 14 March 2013 entered 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 Project

According to the Loan Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning, Water Supply and Higher Education is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objective of the Project is to provide safe drinking water and increase water supply coverage by constructing a water supply system in Anuradhapura North area, thereby contributing to improving hygienic status and health condition in the area. As per the Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 6,817 million equivalent to Rs.11,515 million and out of that Japan Yen 5,166 million equivalent to Rs.8,726 million was agreed to be financed by the Japan International Cooperation Agency. The balance amount of Rs.2,789 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities in February 2013 and scheduled to be completed by February 2018. Subsequently, the period of the Project had been extended up to 30 April 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

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

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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

	Accounting Deficiencies	Impact	Comments of the Management	Auditor's Recommendations
(a)	Value added Tax aggregating Rs.20.19 million had been paid up to 2017 and set off against the contribution of the Government of Sri Lanka. Further, the international conference expenses amounting to Rs.2 million which was not related to the activities of the Project had also been set off against the contribution of the Government of Sri Lanka.	Understatement of the proceeds of the contribution received from the Government	The Input Tax had been set off against the funds received from the Ministry as per procedure applied by the National Water Supply and Drainage Board. The Project had released a sum of Rs.2 million to the National Water Supply and Drainage Board to conduct third International Conference on Community and Water Services under the approval of Secretary to the Ministry of City Planning and Water Supply.	The total amount of contribution from the Government of Sri Lanka is required to be shown in the financial statements as enable to reconcile with the records of the General Treasury.
(b)	The exchange gain on foreign currency transaction amounting to Rs.65.46 million remained as at 31 December 2018 had been erroneously shown under the work-in-progress.	Overstatement of the work-in-progress	The necessary accounting entries, if required, will be passed in the books of accounts.	Foreign exchange gains need to be shown separately.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The activities of the Project consisted with 08 components and the overall physical progress of the Project had remained slow at 22.67 per cent as at 31 December 2018. The following further observations are made thereon.

	Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
(a)	The main construction contracts of the Project on providing of intake facility, construction of water treatment plant, ground sump and elevated tanks and laying of Transmission Main and Distribution Main at Rambewa and Medawachchiya had shown slow progress of 10 per cent as at 31 May 2019, due to the delay of design and preparation of bidding document and time taken to implement the procurement procedures. As a result, the possibility to achieve the targets of the Project during the period of 11 months of the Project as at 31 April 2020 is remained in doubt.	The activities under the contract may not be completed within extended period of the Project.	The contractor was advised to stick with the construction works as enable to complete the works in time.	Need to monitor the works of the contractor closely.
(b)	As per the paragraph 15 of the Memorandum of Understanding entered between the Department of Irrigation and National Water Supply and Drainage Board, a sum of Rs. 300 million was agreed to be paid, out of the proceeds of the contribution of the Government of Sri Lanka to the Department of Irrigation to rehabilitate the Mahakanadarawa Wawa and related subsystems proposed to be used as the source of water. However, no any rehabilitation works had been commenced up to 15 October 2019, due to the delays in submission of Engineer's Estimate for canal rehabilitation works from the Department of Irrigation.	Delay of the canal works as per the Memorandum of Understanding.	Since no Engineer's Estimates on canal rehabilitation works from Department of Irrigation submitted, no allocation had been released to the Department of Irrigation.	Immediate action should be taken to obtain the Engineer's Estimates from the Department of Irrigation.

3.2 Underutilized Resources

Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
<p>Out of the total allocation of Japan Yen 5,166 million equivalent to Rs. 8,726 million made by the Lending Agency, only a sum of Japan Yen 1,519.95 million equivalent to Rs. 2,116.84 million representing 29 per cent had been utilized as at 31 December 2018, after lapse of 70 months out of total duration of 86 months of the Project. As a result, the Project had paid commitment charges amounting Rs. 28 million up to 31 December 2018 on delays in disbursements of the proceeds of the Loan.</p>	<p>Possibility to charge additional amount of commitment charges.</p>	<p>This was due to the delays caused at the procurement stage and Project Monitoring Unit was not in a position to control delays at procurement stage.</p>	<p>Action should be taken to expedite the works and need to monitor the works of the contractors closely.</p>

3.3 Contract Administration

Audit issue	Impact	Comments of the Management	Auditor's Recommendation
<p>It was observed that the pipe laying works of 43.98 kilometres, out of 88 kilometres of Transmission Main and 98.32 kilometres, out of 163 kilometres of Distribution Main had only been completed, eventhough, 18 months representing 72 per cent of the period of the contract for supply and laying of High Density Poly Ethylene Pipe</p>	<p>Possibility to delay of the Project.</p>	<p>The contractor was advised to stick with their construction programme and satisfactory progress being maintained by the contractor. However, most of the scheduled works were disturbed with imposing certain barriers on explosives etc., due to Easter Sunday attacks</p>	<p>Action should be taken to monitor the works of the contractor.</p>

Transmission Main and Distribution Main at Rambawa and Medawachchiya was elapsed as at 31 May 2019.

3.4 Matters in Contentious Nature

Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
<p>The Project had hired motor vehicles to fulfill the needs of transport facilities since 01 January 2018 through the contractors engaged in civil construction works of the Project. However, 02 motor vehicles and 02 motor cycles procured at a cost of Rs. 16.31 million by the Project had been handed over to the Anuradhapura Regional Support Service Center of the Water Supply and Drainage Board instead of being utilized for the Project activities. Moreover, a water bowser had also been handed over to the Regional Support Service office of Kegalle which was not remained under the scope of the Project.</p>	<p>Allowed to use assets of the Project for the activities out of scope of the Project.</p>	<p>No comments made.</p>	<p>Project resources need to be utilized to implement the activities of the Project.</p>