

Anuradhapura North Water Supply Project Phase I - 2021

The audit of financial statements of the Anuradhapura North Water Supply Project Phase 1 for the year ended 31 December 2021 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 Project Memorandum of the Loan Agreement No.SL-P 110 dated 14 March 2013 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 Project

According to the Project Memorandum and Loan Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply 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 was 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 Project commenced its activities in February 2013 and scheduled to be completed by February 2018. Subsequently, the period of the project had been extended two times up to 05 July 2022.

1.3 Qualified Opinion

In my opinion, except for the effect of the matters described in the 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 2021 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 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

| No | Accounting Deficiencies | Amount | Responses of the Management | Auditor's Recommendations |
|-----|---|-------------|---|--|
| | | Rs. million | | |
| (a) | Parity adjustments made by the General Treasury up to 31 December 2021 had not been brought to the financial statements as per the LKAS-21. | 579.74 | Will do the needful to provide required entries on 2022 financial accounts based on recommendations by NWSDB Finance Section. | Parity adjustment should be brought to the financial statements as per the LKAS-21 and action should be taken to reconcile the loan balances of the financial statements and Island account. |
| (b) | The exchange gain on foreign transactions up to 31 December 2021 shown under the work in progress could not be verified in audit, due to monthly bank statements of Special (Yen) Account of the Project had not been submitted to the audit. | 154.44 | Special (Yen) Account statement has been requested from central bank on every year end by PMU. But Central bank doesn't issue such statement. | Actions should be taken to submit the monthly bank statements in time to the audit. |

3. Physical performance

3.1 Physical progress

Project commenced its activities in February 2013 and scheduled to be completed by February 2018 within five years. Even though the Project had lapsed eight years and ten months from the date of commencement the activities of the Project as at 31 December 2021, physical and financial progress of the Project was remained at 95.78 percent and 65.21 percent respectively. However, Project had achieved only 15.41 percent of Physical progress during the year under review was observed. Cumulative progresses of each activities of the Project as at 31 December 2021 are as follows.

| Activity | As at 31 December 2021 | | Audit Issues | Responses of the Management | Auditor's Recommendations |
|--|-------------------------|-------------------------|--|--|--|
| | Expected Target Percent | Target achieved Percent | | | |
| (a) Consultancy Services | 90.60 | 89.5 | Expected consultancy services could not be obtained within scheduled period and it may lead to extend the consultancy period. As a result, overrun the Project cost. | Consultancy contract extended up to 31/05/2022 and no further extension granted up to now. The Consultants presently to assist necessary project activities hoping an extension. | Construction works should be closely monitored by the consultant in order to complete within the time frame. |
| (b) Intake Facility, Water Treatment Plant, Ground Sumps, Elevated Tanks, Office Buildings, Mechanical and Electrical Works (Lot- A) | 99.8 | 98.2 | Adversely affect the completion of the Project and the Project objectives. | Substantial Completion Certificate issued and handing over the works are in progress. | Instructions should be given to complete the balance works and closely monitor the contractor's works. |
| (c) Transmission Main & Sub main – 110mm dia. To 500mm dia – 88.7Km Distribution Main(HDPE) dia.110-400mm – Length of 163Km) (Lot - B) | 96.8 | 94.0 | It may adversely affect the Project performance. | Recommendations to extend contract up to 30.11.2022 is processing at NWSDB. Due to fuel scarcity of Country and Disbursement delays at the economical difficult period of country, the contractor couldn't to complete the works as scheduled. | Instructions should be given to complete the contract without further dela and closely monitor the contractor's work |

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| (d) | Laying of uPVC Pipes, Fittings and Special and Supply and Laying of DI and GI Pipes, Fittings and Specials in Issinbessagala Zone (Lot C-1) | 100 | 95 | Delaying the completion of contract may adversely affect the Project performance. | The contractor mobilized and preparing for flushing & disinfection the pipe network. | Maximum effort should be taken to complete the balance work within the time frame. |
| (e) | Laying of uPVC Pipes, Fittings and Specials and Supply and Laying of DI and GI Pipes, Fittings and Specials in Rambewa, East Rambewa & Ethakada Zones. | 100 | 95 | Delaying the completion of contract may adversely affect to the Project performance. | Commenced the flushing & disinfection works. | Maximum effort should be taken to complete the contract within the time frame. |

3.2 Contract Administration

| No | Audit Issues | Responses of the Management | Auditor's Recommendations |
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| (a) | The main civil contract for intake facility water treatment plant ground sumps, elevated tanks, office buildings, mechanical and electrical works (Lot A) was awarded on 23 March 2018 and initially scheduled to be completed by 20 April 2020. Subsequently, contract period had been extended 06 times up to 31 March 2022, due to failure of the completion of contract on due date. As per the progress report of the project, overall physical progress of the contract was 98.2 percent as at 31 December 2021 and it had remained 99 percent as at the final extension date of the contract on 31 March 2022. However, any construction work under the contract had not been fully completed and handed over to the project even up to 30 June 2022. Even though the further time extension had not been granted by the project from 31 March 2022, balance works of the contract is being carried out by the contractor without obtaining the proper extension. | Project completion delay happened due to few main reasons. 2019 Easter Sunday attack, 2019 none payment of bills for 8 Months due to shortage of government allocation, 2020 April Covid lockdowns, Fuel shortage in 2022, None payment of bills by JICA from April 2022 to up to now. PMU has negotiated with contractors not to stop the works, and Despite the above reasons, almost completed main activities of project by now. | Instructions should be given to complete the balance works and to closely monitor the contractor's works |

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| <p>(b) The main pipe laying contract for supply and laying of 88.7km of HDPE transmission main and 163 km of HDPE distribution main (Lot B contract) was scheduled to be completed within 24 months by 31 December 2019. However, the balance works in respect of the pipe laying, compaction testing. Pressure testing, flushing and disinfection, installation of valve chambers, culvert and bridge crossing works etc. had not been completed even up to 30 June 2022. Hence, it was observed that whether the balance works of the contract could be completed before the revised completion date of the project is in doubt to the audit. As a result of that, flushing and disinfection works of the other distribution pipe laying contracts namely, Lot C-1, and Lot C-3 could not be completed and hand over even up to 30 June 2022 until the completion of Lot B contract.</p> | <p>Recommendations to extend to contract up to 30.11.2022 are processing at NWSDB. Due to fuel scarcity of country and Disbursement delays at the economical difficult period of country, the contractor could not complete the works as scheduled.</p> | <p>Instructions should be given to complete the contract without further delaying and closely monitor the contractor's work</p> |
| <p>(c) Distribution pipes laying contracts for 115 km length of UPVC, DI and GI pipes laying at Issinbessagala zone (Lot C-1 contract) and 119.6 km length of UPVC, DI and GI pipes laying at Rebewa, East Rabewa and Ethakanda zone (LOT C-3 contract) had been completed on 29 February 2020 and 15 July 2019 respectively, However, both contracts had not been completed and handed over even up to 30 June 2022, due to flushing and disinfection works of the pipe lines have been suspended by the contractors until the completion of distribution main and transmission under the Lot B contract.</p> | <p>Now negotiation between irrigation department & NWSDB is in progress to get the water for flushing.</p> | <p>Effective action should be taken to complete the balance work within the time frame.</p> |
| <p>(d) Consultancy contract for detail design, preparation of tender documents, procurement assistance and construction supervision was awarded at a cost of Rs. 218. million equivalents to Japan Yen 129 million on 13 June 2014 and scheduled to be completed within 38 months by 14 September 2017. Subsequently, period of the consultancy contract had been extended 04 times up to 31 May 2022 due to delay of awarding contracts and slow progress of the civil contracts. As a result of that, sum of Rs. 124.96 million equivalent to Japan yen 27.72 million had been paid as additional consultancy</p> | <p>The Consultants agreed to assist on project activities until the project completion hoping an extension will be provided.</p> | <p>Construction works should be closely monitored by the consultant in order to complete within the time frame</p> |

expenses in respect of the extension period equivalent to 51.86 percent of the agreed contract amount.

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| (e) | Project had initially planned to build a caretaker quarter at Mahakanadarawa treatment plant premises under the Lot A contract. Subsequently, it had been changed and decided to build a circuit bungalow at Mihinthale as requested by the General Manager meeting at RSC office North Central on 02 December 2020. However, written approvals for the scope change as above had not been obtained from the JICA or General Manager of the NWSDB before implementing the construction. | This alternation created with the instruction of GM/NWSDB at his site visit dated 27 November 2020 and was minted at the special meeting dated 02 December 2020. | Separate cost estimate should be prepared and followed proper variation procedure. |
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3.3 Idle/ Unutilized/ Underutilized Resources

Audit Issue

Eventhough the project had spent 9 years and 04 months from the commencement date of the activities of the project as at 30 June 2022 instead of 05 years, any work had not been fully completed and handed over to the NWSDB to provide safe drinking water as planned. However, government had paid amount of Rs. 45.68 million as commitment charges in respect of the underutilization of agreed loan amount and capital repayment amounting to Rs. 994.38 million equivalents to Japan Yen 558.51 million had been paid up to 31 December 2021 before the completion of project works and fully utilization of the agreed loan amount as well as without achieving the government and public objectives from the project.

Response of the Management

Eventhough minor activities of the project started early, major contract packages have been awarded almost in 2018. Achieving the substantial completion of the project. The project components presently handing over to NWSDB is in progress.

Auditor's Recommendation

Maximum effort should be taken to complete the Project without further delaying to achieve the government and public objectives as expected from the Project.

3.4 Matters in Contentious Nature

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| No | Audit Issue | Response of the Management | Auditor's Recommendations |
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| (a) | Project had achieved only 97.46 percent of overall physical progress by 30 June 2022, due to incompleteness of the works of Lot B, Lot C-1, Lot C-3 contracts and balance works of Lot A contract. In addition to that, value of contract bill payments amounting to Rs.303.72 million relating the period from March 2022 to June 2022 in respect of Lot A, Lot B and Lot C-3 contracts have been suspended by donor since the government stopping the capital repayments. As a result of that, | Donor Agency has stopped the disbursement due to the default of the capital repayment for Government Loans. | Action t should be taken to the complete the contracts without delaying and discuss with the contractors regarding the settling of outstating bills. |
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completion of the balance works of above contracts may be further delayed and delay charges had to be paid to the contractors.

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| (b) | As per the project memorandum of the phase -01, Scheduled completion date of the project was by February 2018. Subsequently it was extended up to Month of July 2022 due to delaying the awarding of contracts, poor performance of Lot-A and Lot -B contracts and slow progress of the contractors etc. However, project had incurred Rs.179.9 million as additional overhead cost for maintaining the PMU and other site offices for the extended Project period. | The project has not been scheduled to be completed by 2018 as major contract packages were awarded almost in 2018. | Contract awarding and implementing of Project should be completed within required time schedule. |
| (c) | As per the Loan agreement of the Project, General administration expenses are not eligible for financing from the Loan proceeds was observed. However, contrary to that a sum of Rs.3.6 million during the year under review and a sum of Rs.2.36 million up to month of March 2022 had been paid as salaries in respect to the 05 nos of project staff assigned to the Project Management Unit. | These payments made upon an approval obtained from NWSDB by presenting to the Variation Order Committee due to lack of staff recruited under the project & Transfers of staff to NWSDB & Other projects. | Action should be taken to pay eligible expenses through loan proceeds. |
| (d) | Bank guarantee value of Rs.69.45 million which had been issued for the RDA roads was expired on 06 September 2021. Therefore, Project director had requested further extension up to 06 March 2022 from head office, due to pipe lying works of the Lot – B contract was not completed. However, it had been rejected by the head office, due to the head office had been opened a fixed deposit at the Bank of Ceylon on behalf of the Bank Guarantee since long period and incurred 3.17 million as commission. Hence, it was observed that the, pipe laying works of Lot B, Lot – C1 and Lot – C3 contracts had not been fully completed and handed over to the RDA even up to 31 July 2022 and bank guarantee for the RDA roads were expired and it had not been issued from 06 September 2021. | The RDA roads completed before July 2022 by LOT B, C1 & C3. Renewal of bonds was not requested. | Immediate actions should be taken to complete and hand over the roads to prevent the request of bank guarantee. |

3.5 System and Controls

Audit Issue

According to the management Circular No.05 of 26 July 2010, the activities of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board in year 2021.

Response of the Management

Generally, project activities have been audited by Internal Audit of NWSDB from beginning. But in 2021 auditors didn't visit the PMU.

Auditor's Recommendation

Action should be taken to implement an Internal audit.