

## **Anuradhapura North Water Supply Project Phase 2 - 2023**

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The audit of financial statements of the Anuradhapura North Water Supply Project Phase 2 for the year ended 31 December 2023 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 18 of Project Memorandum of the Loan Agreement No.SL-P 115 dated 17 November 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency (JICA). 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 Memorandum and Loan Agreement of the Project, then the Ministry of City Planning and Water Supply, presently the Ministry of Water Supply is the Executing Agency and the National Water Supply and Drainage Board (NWSDB) 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 District, thereby contributing to improvement of health condition and living environment in the project area. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 27,301 million equivalent to Rs. 31,598 million and out of that Japan Yen 23,137 million equivalent to Rs. 26,778 million was agreed to be financed by the Japan International Cooperation Agency. Further, out of the total cost of the Project, allocation of Japan Yen 19,409 million equivalent to Rs. 22,464 million had been made for the activities of the Project Phase-II, whilst balance amount of Japan Yen 3,728 million equivalent to Rs. 4,315 million had been allocated for the activities of the Project Phase-I. The balance of Japan Yen 4,164 million equivalent to Rs.4,820 million required to be contributed by the Government of Sri Lanka. Further, out of the Government of Sri Lanka allocation Japan Yen 4,089 million equivalent to Rs. 4,733 million had been made for the activities of the Project Phase-II, whilst balance amount of Japan Yen 75 million equivalent to Rs. 87 million had been allocated for the activities of the Project Phase-I. The Project commenced its activities in June 2017 and scheduled to be completed by June 2024.

### **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 2023, 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

No	Project component	Activity	As at 31 December 2023		Audit issue	Management Response	Auditor's Recommendations
			Expected physical performance of procurement	Performance achieved of procurement			
			Percentage	Percentage			
(a)	Construction of Water Treatment Plant and related facilities.	Construction of Intake Facility, Water Treatment Plant, water storage structures, Mechanical, Electrical and Buildings work (Lot A)	100	74	Although Bidding documents were issued and pre-bid field visits and pre-bid meetings were completed on this regard in April 2022 the closing of the bid was extended indefinitely due to the temporary suspension of JICA disbursement	The date of Closing of Bid Submission is extended indefinitely because of the prevailing problematic situation of the country and until JICA resuming their funds and concurrences.	Actions should be taken to restart the Project activities.
(b)	Supply and construction of Transmission and Distribution pipe lines	Supply and laying of DI, HDPE Transmission and HDPE Distribution Mains (Lot B) and	100	93	The bidding procedure for this component had been temporary suspended at the bid evaluation	As per the NWSDB/SCA PC decisions, Bid Validity period and Bid Security period were extended up to 01.04.2024	Actions should be taken to restart the Project activities.

Supply and laying of HDPE, DI Distribution Mains and providing service connections for padaviya, Kabethigollawa, kahatagasdigiliya, Horowpothana and Rabawa DS divisions.

stage due to and the 28.04.2024 temporary suspension of JICA disbursement .

(c)	Supply and construction of Transmission and Distribution pipe lines	Supply and Laying of, HDPE, Distribution pipelines, of providing service connections and construction of 250 capacity water tower (Lot C3 for phase –I)	100	77	Although the bid was called for this construction on 17th November 2021 and closed on 26th January 2022, Currently, it is in the bid evaluation stage due to the temporary suspension of JICA disbursement .	As per the NWSDB/SCA PC decisions, Bid Validity Security period were extended up to 01.04.2024 and 28.04.2024 respectively.	Actions should be taken to restart the works of this component.
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(d)	Consultancy Contract for Construction Supervision(Lot F)	Consultancy Contract for Construction Supervision(Lot F)	100	91	Negotiation meetings with the successful consultant have not been held due to the temporary suspension of JICA disbursement . Currently, Contract remains in the bid evaluation stage.	As per the NWSDB/SCA PC decisions, Bid Validity period was extended up to 01.04.2024.	Actions should be taken to restart the Project activities.
(e)	Land Acquisition and Land Clearance	Land Acquisition and Land Clearance	100	76	The activity related to the long-term lease for the five plots belonging to the Mahaweli Authority and the Forest Department had not been completed as of 31 December 2023.	Leases activities are being carried out by the relevant authorities and this will not cause any delays in the project activities.	Action should be taken to complete the land acquisition activities.

**3. Matters in Contentious Nature**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
<p>Anuradhapura North Water Supply Project Phase II covers Kebithigollewa, Padaviya, Horowpothana, and Kahatagasdigiya Divisional Secretary areas where the people depend with unsafe contaminated ground water which causes dental and skeletal fluorosis, as well as one of the main hazardous factors for spreading chronic kidney disease. Hence, the Government has given priority to implement these water supply Projects to provide safe drinking water and Project was scheduled to be start from June 2017 and completed by June 2024. Although 50000 families have been targeted as beneficiaries and waiting for safe drinking water, however the construction contract of this project had not been awarded yet even after laps 78 months. As a result, all activities were under procurement process and suspended due to lack of funds. Therefore, the expectations of beneficiaries could not have been achieved and the project was in uncertain situations.</p>	<p>JICA has temporarily suspended all the disbursement and providing concurrences since April 2022, therefore we expect further delay in awarding of contract.</p>	<p>Action should be taken to find funds and complete the Project.</p>