

Anuradhapura North Water Supply Project Phase I - 2023

The audit of financial statements of the Anuradhapura North Water Supply Project Phase I 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 14 of Project Memorandum of the Loan Agreement No.SL-P 110 dated 14 March 2013 entered into 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 Water Supply and Estate Infrastructure Development 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 four times up to 05 July 2025.

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 2023 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 Deficiency / Audit Issue	Amount Rs million	Response of the Management	Auditor's Recommendation
(a)	Although, Rs.8,698.6 million valued fixed assets had been formally handed over to the Board through fixed asset forms during the year under review, the action had not been taken to capitalized in project financial statement. Accordingly, the value of working progress had been overstated by Rs.8,698.6 million and property, plant and equipment account had been understated by same amount.	8,698.61	All the Asset Forms received so far has been handed over to the Regional Support Centre (North Central). Further, the captured assets have been entered to the Assets Management System (AMS) by PMU. Currently, the approval and capitalization works are being carried out by the RSC (NC).	Immediate actions should be taken to capitalize the handed over assets in project accounts in line with LKAS 16.
(b)	The retention money amounting to USD 169,906.76 which had to be paid to the Lot-A main contractor had not been revalued and accounted using year-end spot rate in accordance with Sri Lanka Accounting Standard No. 21 of 23 (a).	6.19	Corrected from journal voucher No.09. Its adjustment is done from 2024 accounts. (Attachment No.01)	Action should be taken to rectify the error.
(c)	The Borrowing cost amounting to Rs.58.15 million had been capitalized to the capital work in progress account even after the physical progress of the project was substantially completed and the water distribution work of the project was started. According to Sri Lanka Accounting Standard No. 23 (23), the board had not taken action to cease the capitalizing borrowing cost when it came to the intended use.	58.15	This adjustment will be corrected in the year 2024	Action should be taken to rectify the error and to follow the correct accounting procedures in future.
(d)	The payment of interest amounting to Rs.17.52 million made during the year under review had not been accounted.	17.52	Corrected from journal voucher No.10. Its adjustment is done from 2024 accounts. (Attachment No.02)	Action should be taken to keep correct accounting records.

(e)	As per The opening balance of Equity contribution for debt services account (Note No. 13 of the Statement of Financial Position), was understated by Rs. 41 million.	41	Note No.13 has been corrected. Its adjustment is done from 2024 accounts. (Attachment No.03)	Action should be taken to rectify the error.
(f)	The project expenditures amounting to Rs.122.78 million which relevant to the contract payments had been transfer by journal entries without the approval of a responsible officer.	122.78	The relevant Journal vouchers are requested to be completed and submitted. (Attachment No. 04)	Action should be taken to strengthen the internal controls of the payment process.

3. Physical performance

3.1 Physical progress

Project commenced its activities in February 2013 and scheduled to be completed within five years. Even though it had lapsed Ten years and ten months from the date of commencement at the end of the year under review, the physical and financial progress of the Project was remained as 98.71 percent and 95.92 percent respectively. However, the Project had achieved only 0.15 percent of Physical progress during the year under review compared with year 2022. The Cumulative progress of each activity of the Project is as follows.

No.	Activity	Expected target	Target achieved as at 31 December 2023	Audit Issues	Response of the Management	Auditor's Recommendation
(a)	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	Achieving the expected objective of the project will further be delayed.	The contractor has since been required to wait for the completion of Lot A and Lot B in order to carry out the remaining flushing and disinfection tasks.	Actions should be taken to complete the balance works with expedite plan to achieve the expected objective.
(b)	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. (Lot C-3)	100	96	Achieving the expected objective of the project will be delayed further	Lot C3 contractor completed all assigned work in July 2019. The contractor has since been required to wait for the completion of Lot A and Lot B in order to carry out the remaining flushing and disinfection tasks.	Immediate action should be taken to complete the remaining Lot A and Lot B connection works without further delay.

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The main pipe 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 07 times up to 31 March 2024, due to failure of the completion of contract on due date. However contractor has failed to fully complete the contract package within given extended period. Further it was observed that balance works such as SCADA remote site connection, lining of alum tank at water treatment plant, Landscaping of Ethakada and Issinbessagala tower premises, Installation of light fittings, bathroom fittings, landscaping works and other finishing works at Circuit Bungalow were to be completed even at the audited date of 31 July 2024.	The progress of Lot A has been significantly delayed due to the impacts of the COVID-19, delays in the payment of Interim Payment Applications (IPAs), material shortages caused by the financial crisis, and issues related to water extraction from the Mahakanadarawa Tank. Despite these challenges, the PMU successfully urged the contractor to continue work in part by part, thereby avoiding a temporary suspension, while simultaneously negotiating with the Irrigation Department. We believe that the progress achieved during this critical period represents a positive outcome.	Remedial action should be taken to complete the Lot A contract package as planned without further delay and having losses to the country.
(b)	Distribution pipe laying contract for 115km 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 Rabewa, East Rabewa and Ethakada zone (Lot C-3 contract) had been completed on 29 February 2020 and 15 July 2019 respectively. Even though the pipe laying works had been completed under these contracts, flushing and disinfection works of the pipe lines have been suspended by the contractors until the completion of transmission main and distribution main under the Lot B contract. Nevertheless, it was observed that 21 Nos. Lot B - Lot C pipeline connections, As-built drawings, flushing works of 9km and disinfection works of 26km, 8 Nos. CBO connections, 483 Nos. house connections out of 500 remained to be completed under the Lot-C1 contract and flushing & disinfection of 102km and 45 Nos. Lot B - Lot C pipeline connections were to be completed under the Lot-C3 contract as at 31 July 2024.	Lot C1 and Lot C3 contractors temporarily withdrew from the site since the pending completion of Lot B. Upon the completion of Lot B, the contractors re-mobilized to the site and commenced the remaining work. Connection for CBO and house connection were not originally included in the scope of the Lot C contracts.	Action should be taken to complete the cleaning and disinfection works. Further, need to be closely monitored contractors works regularly in order to complete within the time frame.

(c)	This project started in the year 2013, has been a critical endeavour aimed at providing safe drinking water for population of around 115,000 consumers. This includes the addition of 25,000 new house connections which covers 75 Gramaniladari divisions in Medawachchiya and Rabawa divisional secretariats in Anuradhapura district where the people depend on unsafe contaminated ground water which causes dental and skeletal fluorosis and highly tend to have chronic kidney diseases. Even though, water treatment plant had been commissioned and handed over to the O&M since October 2022. Further it was observed that only 1,881 New Connections which is out of targeted new connections of 6000 in 2024 had been given by the audited date of 31 July 2024.	As the Water Treatment Plant has been handed over to the O&M, the house connection program is handled by the O&M. The new house connection progress is majorly dependent on the acquisition of CBOs in both Medawachchiya and Rambewa DSDs. So far, 16 CBOs have been acquired and 3,002 new connections have been provided under the acquired CBOs and 720 new connections have been provided from newly laid pipe network.	Necessary actions should be taken to expedite the house connection transferring process in order to give the expected benefits to the beneficiaries without further delay.
(d)	Four Generators valued at Rs. 26.81 million which were supplied by the contractor of Lot A had been inactive due to the failure of batteries. However, three years manufacture warranty period of those Generators had also been expired by the year 2023. Accordingly, it was further observed that it is not possible to operate the water treatment plant and other pumping stations in case of CEB power failure.	The contractor has been informed multiple times to replace the batteries. However, due to the non-payment issues the contractor did not attend to that work. As the disbursement have resumed now the issue has been communicated with the contractor.	Need to take immediate action to rectify the existing issues of the Generators and get the expected results.

3.3 Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	The project has incurred to Rs.16.86 million as staff salaries and other administration expenses for the period of 18 months from January 2023, however the achieved incremental physical progress of the project for that period was only 0.15 percent, Which is significantly very low progress when compared with value of money during that period.	The PMU office was relocated to a NWSDB owned quarters and reduced the staff. Now, the PMU is functioning with 4 no of essential staff which is required to complete the balance works, checking of contractor's final bills, handing over works and capitalization of the project.	Action should be taken to manage the unexpected situations and expedite the works to achieve the main objectives of the project and also reduce unnecessary cost
(b)	Even though project activities had been commenced from 2013, no any major contract under the project had been fully completed even up to 31 December	The progress of the project has been significantly delayed due various reasons, However, as of now the Water Treatment Plant	

2023. However the project is being dragged by the PMU incurring large amount of money as administration, consultancy, maintenance etc. and the Government expenditure such as loan installment (Rs.1,309Mn), commitment charges (Rs.45Mn),

loan interest (Rs.178Mn) is increased without having benefits to the economy in addition, without giving solution to the prevailing chronic kidney Disease (CKDu) in project area.

and Rambewa site were officially handed over to the O&M section on 1st October 2022. Then, the O&M section was able to feed all existing connections (1642) in the Rambewa (WTP) while new connections have been gradually integrated into the scheme. As of now, a total of 7,248 connections have been provided.

The contract package Lot B has been completed and Lot C1 and Lot C3 contractors have completed their scope of work, with the exception of flushing and disinfection which is expected to be completed within the next month and handed over to the O&M.

3.4 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 2023.

Response of the Management

Generally, the project activities have been audited by Internal Audit of NWSDB from the beginning. But in year 2023 the auditors did not visit the PMU.

Auditor's Recommendation

Action should be taken to conduct internal audits regularly.