

Anuradhapura North Water Supply Project - Phase 2 - 2024

The audit of financial statements of the Anuradhapura North Water Supply Project Phase 2 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 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 Urban Development, Construction and Housing 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 2024, 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

	Project component	As at 31 December 2024		Audit issue	Management Response	Auditor's Recommendations
		Expected performance Percentage	Performance achieved Percent age			
(a)	Consultancy Contract for Detail Design and Bidding Assistance	100	98	Although the physical progress of the consultancy service was reported as 98 percent, the procurement process had not been commenced even at the audited date of 28 March 2025.	The consultant's bidding assistance is expected to be obtained.	The procurement works should be completed immediately to expedite the project activities.
(b)	Procurement Progress of Major Packages					
	Lot A	100	74	Procurement activities had not been initiated under these 06 Lots and the delay in procurement, despite the completion of preparatory consultancy work, indicates significant lapses in project implementation and coordination.	It is expected to award 03 contract packages in 2025 and the remaining packages in 2026.	The procurement works should be completed immediately to expedite the project activities.
	Lot B	100	93			
	Lot C1	100	97			
	Lot C2	100	97			
	Lot C3	100	77			
	Lot F	100	91			

2.2 Matters in Contentious Nature

Audit Issue	Response of the Management	Auditor's Recommendation
The Anuradhapura North Water Supply Project Phase II, covering Kebithigollewa, Padaviya, Horowpothana, Kahatagasdigiliya, and parts of	The remaining procurement activities are expected to be carried out in line with the new	Actions should be taken to complete the balance works and fulfill the

Rambewa and Medawachchiya, was initiated procurement Time Schedule. to address health issues caused by unsafe groundwater, including dental and skeletal fluorosis and chronic kidney disease, by providing safe drinking water. Despite being scheduled to run from June 2017 to June 2024, aiming to benefit 170,951 people through 67,000 new house connections, no construction contracts had been awarded as of December 31, 2024, and all activities remained in the procurement stage and the project was in uncertain situations.

objectives of the project.