

## **Anuradhapura North Water Supply Project Phase 2 - 2019**

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The audit of financial statements of the Anuradhapura North Water Supply Project Phase 2 for the year ended 31 December 2019 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 March 2016 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 City Planning and Water Supply, 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 objectives of the Project are 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 areas. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 27,301 million equivalent to Rs.31,598 million. Out of that Japan Yen 23,137 million equivalent to Rs.26,779 million of the total estimated cost of the Project was agreed to be financed by the Japan International Cooperation Agency and balance amount of Japan Yen 4,164 million equivalent to Rs.4,819 million was expected to be contributed by the Government of Sri Lanka. The Project Phase 02 commenced its activities in June 2017 and scheduled to be completed by March 2024.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 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 2019, 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

<b>Accounting Deficiency</b>	<b>Amount Rs. Million</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
The exchange gain of Rs.1.25 million received on foreign currency transactions during the year under review through Special Yen Account maintained at the Central Bank up to 31 December 2019 had been erroneously shown as the work-in-progress.	1.25	Overstatement of the work in progress and understatement of the asset account	Normally the Yen was being appreciated continuously during last years. Hence there was an accumulated balance an amount of money is in Central bank Phase 11 account. Requested this account balance details from Central bank but didn't received. (copy attached & copy sent to General audit when requesting) The central bank didn't release the positive balance to the project.(related to Lkr Bill Payment) Therefore, these balances are taken in to WIP account of the Project, as per the current practice & guideline.	Action should be taken to account exchange gain as an asset

## 3. Physical Performance

### 3.1 Physical progress of the Project

Anuradhapura North Water Supply Project Phase 02 is implement in Kebithigollewa, Padaviya, Horowpothana, and Kahatagasdigiliya Divisional Secretary areas where people depend on unsafe contaminated ground water. Hence the Government has given priority to implement water supply Projects in this area within a minimum period and without delay. As per the initial implementation plan, Phase 2 of the Project was commenced in January 2016 and scheduled to be completed by January 2021 within 5 years. However, detail designing of the Project had only been completed by 31 August 2020 after lapse of 38 months from the commencement date of the Project, due to change of water source. Therefore, significant progress of the Project had not been achieved as at 31 December 2019. As a result of the slow progress, implementation period of Project had been revised up to May 2024.

### 3.2 Contract Administration

Nos	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(i)	The consultancy contract for detail design and procurement assistant of the Project was awarded on 26 March 2018 and scheduled to be completed by 20 February 2020. However, detail designing of the Project had only been completed by 31 August 2020. Eventhough period of the consultancy service for procurement assistant had been extended up to 31 August 2021, the agreement of the consultancy contract had not been extended from 20 February 2020.	Delay of the Contract awarding	The request for extension of Consultancy Contract and the proposed Variation Order has been submitted to the variation committee. Due to some disagreement from the consultant regarding the Variation Order, negotiations are going on. Once the Variation Order is approved the extension will also be granted	Action should be taken to expedite the procurement assistance works of the project
(ii)	Professional liability insurance for the consultancy contract for detail designing and procurement assistance required to be obtained to cover the defect liability period of the Project up to June 2025. However, respective professional liability insurance had been covered only for the period from 01 September 2020 to 01 September 2021.	Professional liability insurance had not been covered defect liability period of the Project up to June 2025	PD has instructed consultants to extend the PLI up to 30 <sup>th</sup> June 2025	Professional liability insurance should be obtained to cover the defect liability period of the Project up to June 2025.
(iii)	Consultancy contract for construction supervision for the Project required to be awarded before the commencement of the construction contracts. However, Cabinet Appointed Consultancy Procurement Committee for the construction supervision had been appointed only on 14 September 2020 and draft bidding documents were sent to the evaluation. Hence, as per the revised implementation programme of the Pro-	Delay of the recruitment of the consultant for construction supervision	The Cabinet Appointed Consultancy Procurement Committee for the Consultancy Contract for Construction Supervision have been appointed on 14 <sup>th</sup> September 2020. The draft bidding documents were sent to evaluation of the CPCC. As per the new programme the Consultancy Contract will be awarded from	Expedite the recruitment of the consultant for construction supervision without further delay.

ject, recruitment of the Consultant for construction supervision was delayed until June 2021.

June, 2021.

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| (iv) | Prequalification of the contract for construction of intake facility, water treatment plant, water storage structures, mechanical, electrical and building works contract (Lot-A) was called on 27 May 2020 and scheduled to be closed on 15 September 2020. However, it was observed that the preparation of tender document of the contract for bidding had not been finalized and submitted to the technical evaluation committee even up to 15 October 2020. | Delay of the contract awarding                       | The Pre-qualification of the contract for Lot A was called on 27 <sup>th</sup> May 2020 and closed on 15 <sup>th</sup> September 2020 following several queries raised by the Applicants. Arrangements have been made to submit the Tender Documents of Lot A to the TEC on 31 <sup>st</sup> October 2020 for document evaluation.   | Action should be taken to complete the technical evaluation without delaying.           |
| (v)  | According to information made by the Project, prequalification for supply and laying of DI and HDPE pipes transmission and distribution mains contract (lot-B) was called on 27 May 2020. However, evaluation and approvals for the prequalification had not been finalized even up to 31 August 2020.   | Delay of the Contract awarding                       | The Pre-qualification of the contract for Lot B was called on 27 <sup>th</sup> May 2020 and closed on 11 <sup>th</sup> August 2020. The TEC's recommendations for the prequalification are received and SCAPC meeting was held on 5 <sup>th</sup> October 2020. However, it was decided at the meeting that further clarifications are required to be called from the Applicants. The tender documents of Lot B have been submitted to TEC on 31 <sup>st</sup> August 2020 and are currently under evaluation. | Action should be taken to expedite the procurement process.                             |
| (vi) | A sum of Rs. 4 million had been allocated to conduct the public awareness campaign and seminars in the consultancy contract. However, after lapse of 28 months as at 31 August 2020 from the   | Delay in the conducting of public awareness campaign | It is planned to conduct the public awareness campaign and seminars during the procurement assistance period. The awareness programs will  | Action should be taken to conduct the public awareness campaign and seminars as planned |

commencement of the consultancy contract, the Project had failed to conduct the public awareness programs and seminars, eventhough the awareness programme required to be conducted before commencement of the Project in order to aware the public regarding the purpose of Project and prevent objections from farmers relating to the water allocation between the cultivation and drinking water purpose in future.

and seminars

be conducted before mobilizing and the commencement of construction works in Anuradhapura. The committee was appointed to arrange a proposal for public awareness programme

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
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A sum of Rs. 9.6 million had been allocated as rental charges of the office building of consultant including the office of the National Water Supply and Drainage Board for a period of 24 months from July 2018 to July 2020. However, lease agreement was expired on July 2020 and it had been extended up to July 2021 with an additional payments of Rs.3.12 million at Rs.260,150 per month as rental charges, due to delay in completion of the consultancy contract within the scheduled period.	Additional rental charges has to be done by the Project due to extension of period given to the consultancy contract.	The incurred additional rental charges were occurred due to extension to the consultancy contract. The reasons for the extension of consultancy contract were explained in section 1.3, a.	Instruction should be given to complet the consultancy contract within scheduled period and closely monitor the works by Project Monitoring unit.

### **3.3 Matters in Contentious Nature**