

Anuradhapura North Water Supply Project Phase 2 - 2022

The audit of financial statements of the Anuradhapura North Water Supply Project Phase 2 for the year ended 31 December 2022 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 and state infrastructure development is the Executing Agency and the National Water Supply and Drainage Board (NWSDB) 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. The activities of the Project are implemented under 04 main components namely Construction of Water Treatment Plant and related facilities, Supply and construction of Transmission and Distribution pipe lines, Equipment for Operation and Maintenances and other related goods, Consulting services. 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, 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 4164 million equivalent to Rs.48.20 million required to be contributed by the Government of Sri Lanka. The Project had 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 2022, 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. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiency / Audit Issue	Response of the Management	Auditor's Recommendations
As per the para 07 of Sri Lanka Accounting Standard No 16, the cost of an item of property, plant and equipment should be recognized as an assets, total value of Rs 4.3 million, 15 items of furniture, 23 items of office equipment and 33 computers had been recorded as work in progress contrary to the above requirement.	Will do the adjustment on 2023 Final Accounts.	Action should be taken to comply with the Sri Lanka Accounting Standard.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
Section 9.3 of the Management Circular No.01/2019.	As per the Management Services Circular, steering committee of the projects should be met at least once in two months. However, even one meeting had not been held from 2017 to 31 December 2022.	Steering committee meeting can be held to review construction and project progress.	Action should be taken to comply the rules and regulation.

3. Physical Performance

3.1 Physical progress of the activities of the Project

No	Project component	Audit issue	Management Response	Auditor's Recommendations
(a)	Consultancy contract for detailed design and bidding assistance.	Although the original Consultancy contract period was 22 months from 01 May 2018 to 29 February 2020, accordingly 44 months already been taken to design the Project and delayed period was 22 months.	Due to change of water source, nearly 18 months got delayed in detail design. The Easter Sunday terrorist attacks on 21 st April 2019 cause an unexpected delay in the overall progress of the project.	Expedite action should be taken to complete the Project.
(b)	Construction of Intake Facility, Water Treatment Plant, water storage structures,	According to the original implementation plan, works of this component should have to be started on March 2017 and completed on January 2022, however it was on pre-construction	Due to the instruction from Ministry of Water Supply, the date of Closing of Bid Submission is extended indefinitely because of the prevailing problematic situation	Expedite action should be taken to complete the Project.

	Mechanical, Electrical and Buildings work (Lot A)	process even as at 31 December 2022.	of the country and until JICA resuming their funds and concurrences.	
(c)	Supply and construction of Transmission and Distribution pipe lines	According to the original implementation plan package number lot B,C1,C2,and C3 was scheduled to be commenced on March 2017 and completed on April 2022, however, it had been on pre-construction process even as at 31 December 2022.	However, obtaining cabinet approval and the awarding of contract are getting delayed due to the temporary suspension of JICA disbursement and providing concurrences since April 2022 and the current economic crisis situation of the country.	Expedite action should be taken to complete the Project.
(d)	Equipment for Operation and Maintenances and other related goods	According to the plan process of this component should have to be started on 17 November 2017 and completed on 17 November 2018 however it was not started even as at 31 December 2022.	Since construction stage of the project is yet to be commenced, these vehicles are not required at this stage.	Procurement process should be started in suitable time periods enabling to continue the projects works without delay.

3.2 Matters in Contentious Nature

Audit Issue

This Project covers Kebithigollewa, Padaviya, Horowpothana, and Kahatagasdigiliya 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 on June 2024. Although 50,000 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 66 months. As a result, all activities were under procurement process and due to this situation there was a risk to achieve the expected benefits of the Project to the end users.

Response of the Management

JICA has temporarily suspended all the disbursement and providing concurrences since April 2022, therefore we expect further delay in awarding of contract.

Auditor's Recommendation

Action should be taken to overcome the existing issues and achieve the project objective.