

The audit of financial statements of the Anuradhapura North Water Supply Project Phase I 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 14 of the Project Memorandum of the Loan Agreement No.SL-P 110 dated 14 March 2013 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 Water Supply and Drainage, presently the Ministry Water Supply 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 amounted to 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 balance amount of Japan Yen 1,651 million equivalent to Rs.2,789 million is expected to be financed by the Government of Sri Lanka. 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 twice up to 05 July 2022.

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 this 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 Deficiency

Accounting Deficiency -----	Amount Rs.million -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Difference of Rs.4.49 million observed between the amount of disbursement shown in the report of the Department of External Resources and balance shown in the financial statements during the year under review	4.49	Understatement of disbursements shown in the financial statements.	Normally Disbursement report is updated on back date basis. It had not been updated when we finalized the figures for 2019. So this has been taken to accounts for 2020 Quarter 1	Reconciliation should be made with Debt recording management system (DRMS) report.

3. Physical Performance

3.1 Physical progress of the activities of the Project

As per the progress report of the Project, the overall physical progress of the activities of the Project at the end of the year under review remained at 54.35 per cent even though the 85.13 percent of physical progress of works was expected to be achieved as at 31 December 2019. As a result the period of the Project had been extended twice up to 05 July 2022. Progress of the activities are as follows.

Nos	Activities	Physical performance As at 31 December 2019		Impacts	Responses of the Management	Auditor's Recommendations
		Programed (%)	Achieved (%)			
(i)	Consultancy services	88.9	83.1	Extended the period of the consultancy contract with an additional cost of Rs.62.09 million.	The consultancy contract initially scheduled to be completed by 31 st Oct. 2017. Referring to above 1.3a (i) & (ii), the constructions of Major Packages were extended. Until the completion of both major contract packages, Consultancy Contract to be continued as per JICA requirement.	Remedial action should be taken to expedite the construction works.
(ii)	Intake facility, Water Treatment Plant, Ground Sumps, Elevated Tanks, Office Buildings, Mechanical and Electrical works (Lot-A)	81.2	27.0	Possibility to delay of the Project	Reasons for delays in ongoing construction as follows. -Delay in taking over Rambewa land Which delayed exactly one year and all the construc-	Instructions should be given to contractor to expedite the works and closely monitor the contractors work

(iii)	Supply and laying of High Density Poly Ethylene Pipe (HDPE) Transmission main and Distribution Main (Lot-B)	97.0	68.2	Possibility to delay of the Project	<p>tion works refer to Rambewa land (2nd Major Component of Lot A)</p> <p>-Limited issuing the Explosive Materials for rock excavation and lack of Labour attendance due to Easter Sunday Attack.</p> <p>-Slow down the rate of work Due to non- payment of contractors bills etc.</p> <p>The Contractor slowdown his works from April to May 2019 and the contractor suspended his works for 03 months from 31st October 2019 to the end of January 2020 due to non-payment of his monthly bills. All the works were stopped accordingly & the resources allocated to Lot B Package temporarily shifted to other sites due to this situation and Easter Sunday attack also causes critical delays in Lot –B Package.</p>	Instructions should be given to contractor to expedite the works and closely monitor the contractors work
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(iv) Laying of UPVC pipes, fittings and specials, supply and laying of DI and GI pipes fittings and specials in Issinbessagala zone (Lot-C 1)	100	95	Possibility to delay of the completion of contract	Major Contract Packages of ANWSP – Phase 1 were awarded in December 2017 and March 2018 after a considerable delay occurred at the procurement stage and therefore Minor Contract Packages were awarded earlier than the Major Contract Packages. Therefore Flushing and Disinfection of these Minor Contract Packages will be attended at the completion of both Major Packages. Accordingly balance 5% of the work progress is for Flushing and Disinfection.	Need to closely monitor the contractor's work
(v) Laying of UPVC pipes, fittings and specials, supply and laying of DI and GI pipes ,fittings and specials in Rabewa, ,Eastern Rabawa and Ethakada Zones(Lot-C3)	100	95	Possibility to delay of the Project	The 117.90 Km pipe Length has been laid out of 119.1 km length the 40.70 pipe Length has been laid as per the variation instructions. Extension of time was given to complete the works.	Need to closely monitor the contractor's work

(vi)	Supply and Delivery of Operation and Maintenance Equipment	100	87.5	Delay of the delivery of portable Generators.	<p>The offers again called for supply and delivery of 3 KVA generators on 17 september2020 Since the none received bids for 3 KVA generators. DGM, RSC (NC) respond on 17.11.2020 to our request dated 17.09.2020 and stated that, “Since there were no bids for 3kVA Generator, it is recommended to go for 5kVA immediately”.</p> <p>As per above instruction by DGM(NC), PMU submitted Engineer’s Estimate and relevant specifications for supply of 5kVA Engine Driven Generator to RSC (NC) on 02nd Dec. 2020.</p>	Expedite the Procurement of portable Generators.
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3.2 Contract Administration

Nos	Audit Issues -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(i)	<p>The main contract for the intake facility, Water Treatment Plant, Ground Sumps, Elevated Tanks, Office Buildings, Mechanical and Electrical works (Lot-A) was awarded on 23 March 2018 after lapse of 4 years and 09 months from the commencement date of the Project. However, reinforcement work and concrete works of all sites are being carried out, finishing works are commenced and rehabilitation of canal works have been completed by December 2019. As per the progress report of the contract, the overall physical progress at the end of the year under review remained at 27 per cent, even though 81.23 per cent of physical progress of works was expected to be achieved as at 31 December 2019.</p>	<p>Possibility to delay of the project</p>	<p>The delays occurred at the awarding stage of Lot A is beyond the control of PMU of ANWSP P I. However, the Project Loan extended at a single time up to July 2022, by JICA considering valid reasons.</p> <p>Even though Project commencement in May 2013, there was a huge delay in Procurement and tendering stage to award the major Contract Packages and as it is mentioned in draft audit report. Reasons for the delays in ongoing constructions refer to Lot A.</p> <ul style="list-style-type: none"> -Easter Sunday attack -Limited the issuing of Explosive materials -Travelling restrictions imposed in the country which causes lack of labour attendance. -Delay in taking over Rambewa land <p>Which delayed exactly one year and all the construction works refer to Rambewa land (2nd Major Component of Lot A) had to shift by one year due to legal proceedings of Rambewa Land.</p>	<p>Instructions should be given to contractor to expedite the works and closely monitor the contractors work</p>

<p>(ii) The contract for supply and laying of High Density Poly Ethylene Pipe (HDPE) Transmission main and Distribution Main (Lot-B) was awarded in November 2017 and scheduled to be completed by 11 December 2019. Eventhough the scheduled completed date was lapsed as at 31 December 2019, only 194,504 meters of pipe laying works and 69,897 meters of pressure testing had only been completed out of the 252,353 meters of estimated pipe laying works to be carried out under the contract. Further, the overall physical progress had been remained at 68.18 per cent behind the expected target of 100 per cent scheduled to be achieved at the end of the year under review. As a result, contract period had been extended up to 31 March 2020.</p>	<p>Possibility to delay of the project</p>	<p>The Contractor slowdown his works from April to May 2019 and the contractor suspended his works for 03 months from 31st October 2019 to the end of January 2020 due to non-payment of his monthly bills. All the works were stopped accordingly & the resources allocated to Lot B Package temporarily shifted to other sites due to this situation.</p>	<p>Instructions should be given to contractor to expedite the works and closely monitor the contractors work</p>
<p>(iii) Contract for laying of UPVC pipes, fittings and specials, supply and laying of DI and GI pipes (Lot-C 1) was awarded in October 2016 and scheduled to be completed by April 2018. However, as per the progress report of the contract, the overall physical progress had been remained at 95 per cent at the end of the year under review, eventhough the 100 per cent of physical progress of works was expected to be achieved as at date. As a result, the period of the contract had been extended up to 29 February 2020 to complete the balance works.</p>	<p>Possibility to delay of the completion of contract</p>	<p>Easter Sunday attack also causes critical delays in Lot B Package. -Limited the issuing of Explosive Materials which disturbed the Rock Excavation Works, - Travelling restrictions imposed in the country which causes lack of labour attendance.</p> <p>Major Contract Packages of ANWSP – Phase 1 were awarded in December 2017 and March 2018 after a considerable delay occurred at the procurement stage and therefore Minor Contract Packages were awarded earlier than the Major Contract Packages.</p> <p>Therefore Flushing and Disinfection of these Minor Contract Packages will be attended at the completion of both Major Packages. Accordingly balance 5% of the work progress is for Flushing and Disinfection. Further providing extended pipe lines based</p>	<p>Need to closely monitor the activities of the contractor to complete within extended period.</p>

on several public requests, utilizing savings of same Contract Package, caused to grant extension.

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| <p>(iv) As per the paragraph 15 of the Memorandum of Understanding (MOU) entered into between the Department of Irrigation and National Water Supply and Drainage Board, the work envisaged was the rehabilitation of the Mahakadarawa Wawa and the rehabilitation of sub-system for extracting water from Mahakadarawa Wawa for Anuradhapura North Water Supply Project Phase-1. However, rehabilitation works had been delayed, due non submission of proposal and engineer estimate by the Department of Irrigation.</p> | <p>Possibility to delay of the project</p> | <p>- Not Replied-</p> | <p>Immediate action should be taken to Commence and complete the rehabilitation works as per the MOU.</p> |
| <p>(v) Consultancy contract for the Project was awarded on 23 June 2014 at a cost of Rs. 218 million equivalent to Japanese Yen 129 million and scheduled to be completed by 15 October 2017. However, the Project was unable to complete within the consultancy period due to the delay in awarding the contracts, low progress of the constructions, delay in land acquisition etc. As a result, consultancy contract had been extended up to 31 March 2020 with an additional cost of Rs. 62.09 million.</p> | <p>Over run the Project cost</p> | <p>The consultancy contract initially scheduled to be completed by 31st Oct. 2017. Referring to above 1.3a (i) & (ii), the constructions of Major Packages were extended. Until the completion of both major contract packages, Consultancy Contract to be continued as per JICA requirement.</p> | <p>Remedial action should be taken to expedite the construction works.</p> |

3.3 Underutilized Resources

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
As per the disbursement schedule of the Project Phase -1, it is required to disburse Japanese Yen 8,739 million equivalent to Rs.10,114 million at the end of the year under review. However, only Rs. 3,308.5 million representing 32 per cent had been utilized as at 31 December 2019. As a result, commitment charges amounting to Japanese Yen 28.3 million representing 69 per cent out of the estimated commitment charges of Japanese Yen 41 million had been recovered by the Lending Agency.	Possibility to charge additional amount of commitment charges.	Commitment charges JPY 28.3 Mn has been imposed as at the end of 2019. This is 69% of total allocation up to end of 2019. Project Management Unit is working with maximum effort and coordinating with NWSDB and other relevant organizations to minimize the commitment charges.	Maximum effort should be taken to complete the Project within the extended Project period.

3.4 Matters in Contentious Nature

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendation -----
Contrary to the approved cadre of the Project, a Project Coordinating Officer had been recruited and a sum of Rs. 2.26 million had been incurred as salaries and emoluments for the period from March 2015 to July 2019.	Project cost increased by unrelated activities.	Referring to Approved Project Cadre, no input is assigned for recruit a Project Coordinator. However as per the decision taken at the Director Board of NWSDB on 02 nd April 2015, a new post was created for a Project Coordinator by abolishing a post of Engineering Assistant (Civil).	Project funds need to be utilized related activities of the Project.

Accordingly, appointing of a Project Coordinator was done by the NWSDB in year 2015 and the officer who was appointed as Project Coordinator obtained salaries and emoluments till May 2019.

This appointment was given by NWSDB based on above Director Board decision which is beyond the control of PMU and we can provide any referenced document for above appointment for your further clarifications if necessary.

3.5 System and Controls

Nos	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(i)	Professional liability insurance for the consultancy services is required to be submitted before the commencement of the consultancy services covering defect liability period of the Project. Even though the period of the Project had been extended up to July 2022, professional liability insurance had been submitted only for the Project activities covering up to year 2019/2020.	Professional liability insurance of the Project had not been covered the Project period and defeat liability period.	As a practice, the insurance is renewed on yearly basis. The consultant renews the insurance documents and submit to PMU whenever the period expires.	Action should be taken to obtain the Professional liability insurance covering the defect liability period of the Project.

- (ii) The Project had obtained approval on 19 February 2014 from the Department of Management Services to recruit 43 staffs for activities of the Project. However, only 26 staffs had been recruited and 17 vacancies including key posts such as, 04 Engineers (civil), 01 Engineering Assistant (Mechanical), and 03 Engineering Assistant (civil) had been remained vacant without being recruited as at 31 December 2019, though these posts are significantly affect to the supervision of the construction work of the Project.
- Affect to the proper supervision of the Project works.
- Mechanical Engineer has been recruited on 21st May 2019 and already said 03 Civil Engineers were recruited earlier but they left time to time consequently, efforts were taken to recruit the same vacant positions but, applicants were not willing to join due to the short remaining period of the Project. Finally it was informed to WSP section to appoint Civil Engineers and Engineering Assistants who are recruited through WSP.
- Immediate action should be taken to fill the vacant staff