

Jaffna and Kilinochchi Water Supply and Sanitation Project - 2020

The audit of the consolidated financial statements of the Jaffna and Kilinochchi Water Supply and Sanitation Project for the year ended 31 December 2020 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 4.05 of Article IV of the Loan Agreement No.2710-SRI (Ordinary Operations) and Section 4.03 of Article IV of the Loan Agreement No.2711-SRI (SF) (Special Operations) dated 08 February 2011 and Section 4.03 of Article IV of the Loan Agreement No. 3603-SRI and No. 3604-SRI(Additional financing) dated 15 December 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. 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 Agreements, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply is the Executing Agency and the National Water Supply and Drainage Board, Provincial Irrigation Department of Northern Province and Local Authorities in the Northern Province are the Implementing Agencies of the Project. The objectives of the Project are to improve water supply and sanitation infrastructure for residents living in the areas of the Project and to protect and manage the water resources of the Jaffna Peninsula. As per the Loan Agreements, the total estimated cost of the Project under the components implemented by the National Water Supply and Drainage Board amounted to US\$ 147.45 million equivalent to Rs. 16,474.59 million. Out of that US\$ 76.45 million equivalent to Rs.8,541.76 million was agreed to provide by the Asian Development Bank and US\$ 48 million equivalent to Rs.5,363.04 million was agreed to provide by the Agence Francaise De Development. The balance of US\$ 23 million equivalent to Rs. 2,569.79 million required to be contributed by the Government of Sri Lanka. However, Loan from Agence Francaise De Development had been cancelled on 06 October 2015 due to some activities of the Project had been suspended, because of the restructuring the Project scope as water source from Irranamadu tank to a Desalination Plant. Therefore, additional loan agreement had been entered by Government of Sri Lanka with Asian Development Bank on 15 December 2017. As per the Additional Loan Agreements, the total estimated cost for activity of the Project amounted to US\$ 153 million equivalent to Rs. 23,256 million. Out of that US\$ 120 million equivalent to Rs.18,240 million was agreed to provide by the Asian Development Bank. The balance of US\$ 33 million equivalent to Rs. 5,016 million required to be contributed by the Government of Sri Lanka. The Project commenced its activities on 15 February 2011 and scheduled to be completed by 14 August 2017. Subsequently, period of the Project had been extended up to 30 June 2026.

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 2020, financial performance 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 and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 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

Accounting -----	Responses of the Management -----	Auditor's Recommendations -----
(a) Exchange gain amounting to Rs.190.99 million had been shown under the current liabilities instead of being shown under the source of finance in the financial statements.	Since these Imprest Accounts have been opened for the Project's date to date operations and CBSL dollar revaluation transactions are being debit and credit in LKR monthly in to the same Bank account, monthly dollar revaluation equivalent to LKR amounts were shown as net dollar revaluation benefit/losses under current assets since 2011 in the Project's financial statements. However, if it is needed to be shown under Financing by category rather under Current Liability, the Project will present accordingly in the financial statements for year 2021.	Action should be taken to account under the financing category.
(b) As per the financial statement of the National Water Supply and Drainage Board, the work-in- progress of the activities carried out by the Project was Rs.8,472.10 million as at 31 December 2020. However, as per the financial statement of the Project, the corresponding value of work- in -progress was Rs. 9,406.14 million. Even though the Project had identified the unreconciled balance of Rs.819.88 million, no action had been taken by the Project to rectify the difference in the financial Statements.	This is to inform you that annually the Project submit its working in progress reconciliation to Finance Division, NWSDB with detailed adjustments to Project balances and NWSDB General Ledger balances in order to tally both balances. Accordingly, the Project prepared and submitted working in progress reconciliation as at 31 st Dec 2020 to Finance Division, NWSDB for necessary action However, as usual the Project and the Finance Division, NWSDB	Action should be taken to reconcile the balance.

will take prompt action to reconcile both balances.

2.2 Non - Compliance with Rules and Regulations

Audit Issues	Responses of the Management	Auditor's Recommendations
(a) As per the section 14.8 of the General Condition of the FIDIC Guideline the certified bill required to be settled within 56 days. However, contractor had made claim of Rs 1.06 million as delay charges, due to delay of payment of the GOSL portion of the bills as at 31 December 2020	In accordance with 14.7 Payment, after receiving interim payment certificate, the Project shall pay within 56 days to the Contractor. If not, complying with 14.8 Delayed Payment, if the Contractor does not receive the payment as per clause 14.7, the Contractor shall be entitled for financial charges for delayed payment. Accordingly, the Project calculated financial charges for delayed GOSL payments and paid Rs 1,061,723.18 by a cheque number: 475467 on 30 th July 2020 from GOSL funds to Sierra Construction Ltd for Construction of Elevated Towers (ET01).	Action should be taken to settle the payment in time to avoid delay payment charges.
(b) As per section 4.2.3 of the supplement No.31 of the procurement manual of 2006, the procurement process of the competitive bidding procedure should be completed within 17 weeks with pre-qualification. However, procurement entity had spent over 3 years to select the contractor for the construction the Sea Water Reverses Osmosis Desalination Plant from the date of advertising and contract had not awarded even up to 31 December 2020.	Tender for the SWRO plant was called on 07 th December 2016 and closed on 17 th July 2017. The Technical Bid opened on 17th July 2017 and Financial Bid was opened on 30th July 2018. However, during procurement process up to 31 st August 2020, 89 days taken for seeking clarifications from Bidders and Central Bank of Sri Lanka, 41 days taken for Consultant assistance and review, 151 days taken for TEC evaluation, 379 days taken for SCAPC decisions and 181 Days	Need to comply with the circular instructions.

taken for ADB comments and concurrences, 201 days taken for Cabinet Memorandum Submission and 99 days taken for appeal procedure.

As this is the first procurement for NWSDB & ADB in design built and operate of a desalination plant. Therefore, series of clarification required from bidders, central bank and as well as SCAPC & ADB in order to select the substantially lowest evaluated bidder.

The Project and relevant authorities were taking prompt action to award the SWRO plant by end of 2020 as per revised procurement plan.

Both Technical and Financial evaluation finalized and SCAPC approval obtained on 07th January 2020 then also ADB concurrence obtained on 10th February 2020. Due to appeal was made by the rejected bidder on 19th February 2020 then hearing was held and PAB endorsed the SCAPC decision on 28th May 2020. After that the cabinet paper submitted in July 2020 and Cabinet approved to award this Contract on 22nd Sep 2020.

Subsequently, the Contract was awarded to M/S Suez International on 25th Jan 2021 and the Contract Agreement signed between NWSDB and M/S Suez International on 23rd Feb 2021. Once SWRO RO Plant has been awarded under L3603, in accordance with ADB system records, awarded Contract amount is USD 64.05 Mn against allocation of USD 95.00 Mn.

Since SWRO RO Plant Contract has been awarded in January 2021 and the Works has commenced on 08th March 2021, as per revised

implementation plan the Project would be able to provide portable water to the beneficiaries by end of 2023.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Activities -----	Physical Progress as at 31 December 2020 -----		Responses of the Management -----	Auditor's Recommendation -----
	Expected -----	Actual -----		
(a) Construction of Water Towers at Poomaveli, karaveddy, Nainathivu, Analathivu and Eluvaithivu	100% (05water tower)	44%	Main reason for the delay in completing the Elevated Water (ET 3) work is the 2 nd wave of Covid 19 Pandemic situation in the Country. The officials from Medical Officer of Health office did not allow laborers coming from other Provinces to enter into the island tower worksites and their strict regulations especially in island sites affected progress. Further, flood followed by Puravi cyclone in early December 2020 also affected the progress. But, currently presence of the work force and machinery are increased at sites and the Contractor has been instructed to complete the works within the extended time frame.	Action should be taken to expedite the contract activities
(b) Laying of distribution Network in Palai, Kodikamam, Meesalai, Poonkary, Puttur	250km	190km	The contract was awarded on 29.10.2018 and scheduled to complete on 02.12.2020. Hence main reason for the delay in completing the Distribution network	Action should be taken to expedite the contract activities.

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contract package DN 2 is the 1st and 2nd wave of Covid 19 Pandemic situation in the Country and contract was extended up to 1.06.2021.

(c) Laying of Jaffna city Area Distribution Net work	283Km	Nil	<p>Tender for this Contract was called on 25th July 2018 and closed on 27th September 2018. Technical Bid opened on 27th September 2018 and Financial Bid was opened on 10th July 2019. Due to delay in awarding of SWRO plant Contract, this contract also delayed and thereafter, this contract awarded on 8.1.2021 and scheduled to complete on 23.1.2023</p> <p>The Project is closely monitoring the progress of Contract by having weekly meetings at site level and monthly meetings with Project Director's Office with Head Office officials in order to complete with in scheduled period.</p>	Action should be taken to expedite the Project activities since loan closed on 31 December 2020.
(d) Construction Chunnakan Water Supply Scheme	50km	Nil	<p>All the design works and draft tender documents were prepared for this Contract Package hence calling of tender shall be depend on the fund availability in the Project.</p>	Action should be taken to expedite the Project activities.

(e) Construction of Sea Water Reverses Osmosis desalination plant.	Contract scheduled to be completed in October 2021.	is to be awarded in to 31 December 2020.	Contract has not been awarded even up to 31 December 2020.	This Contract was awarded to M/s Suez International on 25 th Jan 2021 and the Contract Agreement signed between NWSDB and M/S Suez International on 23 rd Feb 2021. Then, the Works have been commenced on 08 Mar 2021 and presently design works are ongoing and scheduled to complete by end of Dec 2023 to provide safe drinking water in Jaffna Peninsula.	Action should be taken to expedite the procurement process. Because Project have to pay commitment charges due to delay of fund utilization.
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3.2 Contract Administration

Audit Issues -----	Responses of the Management -----	Auditor's Recommendations -----
(a) Under the revised scope of works of the project, it was scheduled to install a sea water reverse osmosis plant and construct allied water towers in order to provide water supply facilities for Jaffna Kilinochchi Region, and expected to complete by 2022. Therefore, the works under the contract awarded to construction 15 water towers at an estimated cost of Rs.1,140 million and laying of treated water transmission pipe at an estimated cost of Rs.5,536 million had completed as at 31 December 2018. However, all these completed construction works under the Project had remained idle over two years due to lack of proper water source.	Both the PMCIU and WSP division of the NWSDB are carefully looking into the possibility of making the laid Transmission Main and distribution Networks in use. Already 44 km long Transmission pipelines are put into operation by the O&M section of NWSDB to provide water supply to Poonakary, Nainathivu, Analaythivu and Eluvaithivu areas. Further, the SWRO Contract was awarded and design works are ongoing in order to commission the scheme as scheduled.	Action should be taken to utilize the completed construction works under the Project for the expected purposes.

- (b) Although the activities of the Project had not completed, repayment of the loan had been commenced in 2017. According to the statements of Department of External Resources, a sum of Rs. 936.15 million had been made as repayment to the Lending Agency as at 31 December 2020.
- Because of water sharing issue, the Project has been restructured with additional financing of USD 120.00 Mn by ADB so that ADB Loan Agreements signed on 15th Dec 2017 with Government of Sri Lanka ADB L3603 for USD 95.00 Mn and ADB L3604 for USD 25 Mn. ADB L3603 for USD 95.00 Mn specifically financed by ADB for SWRO RO Plant-Thalaisyady to provide portable water to the beneficiaries without any delay. But due to procurement process delay, this Contract was able to award on 25th Jan 2021 under ADB L3603.
- Action should be taken to expedite the Project activities.
- (c) It was revealed that Project had not utilized funds under the loan No.3603 even after lapse of 2 years from the date of signing the loan agreements. Therefore, commitment charges amounting to Rs. 70.17 million had been charged up to 31 December 2020 by the Lending Agency against the undisbursed loan balances.
- In accordance with ADB Loan Agreement, ADB charges its financial charges for this provided loan to the Government twice in a year i.e 15th May and 15th Nov from 15th Dec 2017 and reporting these charges to ERD as ADB disbursement under this loan. Based upon ADB's report to ERD, ERD reported as JKWSSP's disbursement in DRMS-814 report.
- Executing Agency is required to discuss with ADB regarding the reduction of commitment charges (because procurement delay occurred due to disagreement with ADB regarding the selected contractor)

3.3 Observations made on site visits

Audit Issue	Response of the Management	Auditor's Recommendation
<p>-----</p> <p>The contract of construction of 05 water towers at Pomaiveli, Karaveddy, Nainativu, Analativu and Eluvativu had been awarded in 2019 at cost of Rs. 565.09 million and scheduled to be completed in December 2020. Although, the Project had given time extension to complete four towers up to April 2021, it had not been completed even up to May 2021.</p>	<p>-----</p> <p>Main reason for the delay in completing the Elevated Water (ET 3) work is the 2nd wave of Covid 19 Pandemic situation in the Country. The officials from Medical Officer of Health office did not allow laborers coming from other Provinces to enter into the island tower worksites and their strict regulations especially in island sites affected progress. Further, flood followed by Puravi cyclone in early December 2020 also affected the progress.</p> <p>Thereafter, the work force and machinery are increased at sites and the Contractor has been instructed to complete the works within the extended time frame. Hence due to 3rd wave of Covid 19 again works stopped and more workers went on quatrains procedures, also the concrete ready mixed plant shutdown and on the request by Contractor, contract period extended up to 28.9.2021.</p>	<p>-----</p> <p>Action should be taken to expedite the Project activities.</p>

3.4 Matters in Contentious Nature

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
<p>As per the Vote Ledger of the Water Supply Ministry, GOSL allocation for the Project during the year under review was Rs. 92.40 million. However, Project had incurred Rs. 145.40 million during the year under review.</p>	<p>This is to inform you that in line with Action Plan and Procurement Plan the Project annually submit its funds requirements under ADB and GOSL as capital budget to Ministry of Water Supply through WSP, NWSDB. Accordingly, the Project originally requested LKR 2,014.72 Mn under GOSL for 2020 as per Action Plan. Then based upon revised implementation plan we requested revised amounting to LKR 369.68 Mn from NWSDB/MWS for making payments and refrain not pay interest charges for GOSL delayed payments to the Contractors.</p> <p>However, we totally received only LKR 145.40 Mn from Jan to Dec 2020 whereas the Project requested LKR 369.68 Mn. Even though we received LKR 145.40 Mn the project was unable settle due bills in hand amounting to LKR 13.98 Mn as at 31st Dec 2020. The Project was able to settle these outstanding bills in 2021.</p>	<p>Executing Agency should get action to prepare budgetary allocation without major deviation.</p>

3.5 System and Controls

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
<p>(a) As per the Board of survey report of the Project as at 31 December 2020, physical verification had not carried out for Laboratory equipment, Office equipment and vehicle amounting to Rs. 25.06 million, Rs.4.1 million and Rs.57.26 million respectively.</p>	<p>In accordance with Project Administration Manual, November 2010, the Project purchased and supplied laboratory equipment to Regional Manager Office, Jaffna in 2014 for LKR 4,884,153.50, in 2015 for LKR 7,950,000.10 and in 2016 for LKR 12,227,646.50 in order to strengthen water quality management of the Region. Since these laboratory items were handed over to Regional Manager Office, Jaffna these were not shown in the Project's inventory books. However, these laboratory equipment items are recorded in inventory books of Regional Manager Office, Jaffna, NWSDB.</p>	<p>Action should be taken to verify the project assets physically.</p>
<p>(b) Transaction of the Project had not been subject to the Internal Audit of the Water Supply and Drainage Board, as required by the Circular No.05 of 26 July 2010 of the Department of Management Audit.</p>	<p>Internal Audit Division for NWSDB carried out the Project's technical and financial auditing until 31st Dec 2018. The Internal Audit Division planned to visit JKWSSP for its auditing in February 2021. Because of Covid-19 pandemic situation in the country including imposed travel restrictions among the provinces, they were unable to visit JKWSSP. However, the Project believes that after Covid-19 pandemic situation in the country back to normal The Internal Audit Division will carry out both technical and financial audit of the project and will submit report as well.</p>	<p>Action should be taken to implement an internal Audit.</p>

3.6 Issue relating to Land Acquisition

Audit Issue

Eventhough the various construction work had been completed under the Project in Jaffna Districts, the ownership of the respective lands had not been get transferred to the National Water Supply and Drainage Board.

Response of the Management

Based on this NWSDB identifying the state lands, other institution lands and private lands and processing for the taking over possession with the proper mechanism. Most of the land acquisition initiated in 2015, completed in 2019, and obtained the vesting certificate that means the ownership transferred to NWSDB. However, some lands were not completed the acquisition even the construction completed and some are not commenced the construction.

Auditor's Recommendation

The NWSDB should be taken immediate action to get transferred the ownership of the lands.