

Anuradhapura North Water Supply Project-Phase 2 - 2020

The audit of financial statements of the Anuradhapura North Water Supply Project –Phase 2 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 18 of Project Memorandum of the Loan Agreement No.SL-P 115 dated 17 November 2016 entered in to 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 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.26,779 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 23,498 million equivalent to Rs.27,196 million had been made for the activities of the Project, whilst balance amount of Japan Yen 3,803 million equivalent to Rs.4,401 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 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, 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 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 Deficiencies	Amount Rs. million	Responses of the Management	Auditor's Recommendation
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As per the reports of the Department of External Resource, the exchange gain on foreign currency transactions was Rs.6.15 million up to 31 December 2020 and it was shown under the work-in-progress erroneously instead of being shown as balance of the Special (Yen) Account. Further, monthly bank statements of the Special (Yen) Account of the Project had not been submitted to the audit to verify the above transactions.	6.15	There are exchange gain/losses in every bills as per the Disbursement report which update by ERD. These balances are taken in to WIP account of the Project, as per the current practice & guideline.	Action should be taken to rectify the deficiency.

3. Physical performance

3.1 Physical progress

The activities of the Project consist 12 components and commenced its activities in June 2017. Out of that, only consultancy contract for detail design, procurement assistance and supply and delivery of 02 Nos of double cabs contracts had been awarded as at 31 December 2020. Hence, there were no any significant physical progress had shown of the Project even up to 31 December 2020. the progress of the contracts as at 31 December 2020 were as follows.

No	Project component /Contract	Scheduled Activity by 31 December 2020	Scheduled period	Progress as at 31 December 2020	Audit issues	Responses of the Management	Auditor's Recommendations
(a)	Construction of Intake Facility, Water Treatment Plant, water storage structures, Mechanical, Electrical and Buildings work -Lot A	JICA concurrence for tender document and bid calling	Month of November 2020 – March 2021	Not completed even up to 30 July 2021.	Possibility of delaying completion of contracts Project	Delay in preparation of bid document due to change of water source. Procurement was delayed due to Covid - 19 restrictions and limited work force during the May - July 2021period.	Actions should be taken to implement and complete the procurement process in accordance with the procurement plan
(b)	Supply and Laying of DI, High Dencity Poly Ehilene	Bid calling	December 2020-	Bid was called on 18/08/2021	Possibility to delay the	Submitted to Technical Evaluation Committee for	Actions should be taken to

	Pipe (HDPE) Transmission Mains and HDPE Distribution Mains -Lot B		February 2021		completion of contract and Project	TEC evaluation on 08.09.2020. The JICA concurrence was delayed due to the Government imposed Covid - 19 restrictions and limited workforce during the May – July period of 2021.	implement and complete the procurement process in accordance with the procurement plan
(c)	Supply and Laying of HDPE, DI Distribution Mains and providing service connections for padaviya and Kabethigollawa DS divisions -Lot C1	Bid calling and closing	November 2020 – January 2021	Bids called on 21 July 2021	Possibility to delay the completion of contracts and Project	Due to the COVID-19, restriction and limitation of work force.	Actions should be taken to implement and complete the procurement process in accordance with the procurement plan.
(d)	Supply and Laying of HDPE, Distribution Mains and providing service connections for kahatagasdigiliya, Horowpothana and Rabawa DS Division -Lot C2.	Bid calling and closing	December 2020 – March 2021	Bids called on 28 July 2021	Possibility to delay the completion of contracts and Project	Due to the COVID – 19 restrictions taking approvals from the TECs, SCAPC, CPCC and final concurrences by JICA through ERD were taken more time than expected.	Actions should be taken to implement and complete the procurement process in accordance with the procurement plan.

(e)	Supply and Laying of, HDPE, Distribution pipelines, providing of service connections and construction of 250 capacity water tower - .Lot C3 (for phase –I)	Not scheduled in 2020	-	-	-	Possibility to delay the completion of contracts and Project	The new package Lot C 3 was included into the scope of ANWSP - Phase II.	Actions should be taken to commence and expedite the procurement process.
(f)	Consultancy service for construction supervision Lot F	Request for proposal & closing	Month of December 2020 – January 2021	-	RFP called on 14 July 2021	Possibility to delay the procurement of Consultancy services for the supervision of construction.	The letter of invitation and RFP Document were issued to the shortlisted consultants on 14 th July 2021.	Actions should be taken to implement and complete the procurement process in accordance with the procurement plan.

3.2 Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
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(a)	Eventhough the period of the consultancy contract for detail design and procurement assistance of the Project was expired on 31 August 2021, out of 12 construction contract, 10 nos of contracts had not been awarded even up to expired date on 31 August 2021.	Due to the changed water source from Wahalkada to Yan and Oya and the Easter Sunday terrorist attacks unexpected delay in the overall progress.	Instructions should be given to expedite and complete the consultancy work within revised contract period.
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| <p>(b) Although a sum of Rs. 4 million had been allocated under the consultancy contract for conducting the public awareness campaign, such public awareness campaign and seminars had not been conducted.</p> | <p>we were not able to conduct the program as we scheduled due to country was affected Covid – 19 waves.</p> | <p>Action should be taken to conduct the public awareness programs before awarding the contracts and commencement of the constructions.</p> |
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3.3 Matters in Contentious Nature

Audit Issue

The Project Phase II covers Kebithigollewa, Padaviya, Horowpothana, and Kahatagasdigiliya Divisional Secretary areas which are the areas where people depend on unsafe contaminated ground water and spreading chronic kidney diseases. Hence, the Government has given priority to implement these water supply Projects. However, procurement process of the project contracts was not in accordance with the procurement plan. As a result, it was observed that the completion of the Project within revised Project period is doubtful.

Response of the Management

Due to the changes of Water Source and the Scope of Project and Covid -19 pandemic consumed a considerable time. But, we are in much confident and trying to contribute our maximum to achieve the entire project.

Auditor's Recommendation

Special attention should be drawn to complete the project within scheduled period and to monitor the Project works closely.

3.4 System and Controls

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Even though the foreign fund allocation for the year was Rs. 123.05 million, it was observed that the Project had incurred Rs.171.21 million during the year under the review. As a result, a sum of Rs.48.16 million had been incurred over the foreign fund allocation.	Forecast amount for the year 2020 by PMU is 208.63 Mn. Allocation given by the treasury for the year 2020 is 123.05 Mn. Allocation by treasury is beyond the control of PMU.	Action should be taken to obtain required fund allocations, since the Government has given priority to implement these water supply Projects.
(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.	The internal audit has not been conducted for the ANWSP – Phase II in the year 2020.	Action should be taken to carry out an internal audit