

Anuradhapura North Water Supply Project Phase 1 - 2020

The audit of financial statements of the Anuradhapura North Water Supply Project Phase 1 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 14 of 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 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 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 was 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 Project commenced its activities in February 2013 and scheduled to be completed by February 2018. Subsequently, the period of the project had been extended two times 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 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 Deficiencies

No	Accounting Deficiencies	Amount Rs million	Responses of the Management	Auditor's Recommendations
(a)	Contrary to the instruction given by the Circular No. 01-2021 dated 12 February 2021 of the National Water Supply and Drainage Board, the Value Added Tax amounting to Rs. 20.19 million had been set off against the contributions received from the Government without being shown separately. Therefore, contribution received from the Government was understated by that amount.	20.19	Since the Payment Proceeded from 2014 and the circular dated 12.02.2021 received recently. We will take measures to show VAT amount as Government contribution.	Circular Instructions should be followed.
(b)	The exchange gain on foreign transactions up to 31 December 2020 amounted to Rs.178.64 million shown under the work-in-progress could not be verified in audit, due to monthly bank statement of Special (Yen) Account of the Project had not been submitted to audit.	178.64	Special (Yen) Account statement being requested by Central Bank on every year end. But Central Bank doesn't issue such report.	Actions should be taken to submit the monthly bank statements to audit.

(c)	As per Section 39 (a) of the Sri Lanka Accounting Standard on the effects of changes in foreign exchange rates (LKAS-21), mobilization advance amounting to Rs.133.08 million and retention money payable amounting to Rs.141.86 million as at 31 December 2020 which relate to the foreign currency payment had not been converted at the closing rate.	274.94	The foreign currency payments are normally converted to the rate on the due payment date. Accepting the present comment by Audit. We will update the amount as per 31.12.2021 at the financial statement as at 31 st of December 2021.	Action should be taken to account foreign currency transactions in accordance with LKAS-21.
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2.2 Other Information of the Project (Unreconciled Loan Balance)

Audit Issue	Response of the Management	Auditor's Recommendation
According to the financial statements of the Government of Sri Lanka for the year ended 31 December 2020, the loan balance of the Project was Rs.5,710.4 million. However, as per the financial statements of the Project the above balance was Rs. 5,360.7 million. The difference between the above two balances was, due to Rs.485.7 million of loan repayment and currency revaluation loss amounting to Rs. 835.4 million.	The Loan repayment is handled by Treasury, therefore, Repayment are not being recorded in NWSDB Accounts. Accordingly Financial Statement of Government of Sri Lanka will tally with the Project Financial Statement once repayments get deducted and the Currency revaluation is added.	Action should be taken to reconciled the closing loan balance of the project with the loan balance of the financial statement of the Government of Sri Lanka and shown in the Project accounts.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Project commenced its activities in February 2013 and scheduled to be completed by February 2018 within five years. Eventhough the period of the Project had lapsed seven years and ten months from the date of commencement the activities of the Project as at 31 December 2020, physical and financial progress of the Project was remained at 80.37 percent and 50.94 percent respectively. Further, it was remained at 93.35 percent and 61.50 percent respectively as at 30 September 2021. Activity wise progress of the Project as at 31 December 2020 was as follows.

No.	Activity	Units	Expected Target	Target achieved as at 31 December 2020	Impacts	Responses of the Management	Auditor's Recommendations
(a)	Consultancy Services	Percentage	89.8	87.2	Expected consultancy services could not be obtained within scheduled period, may lead to extend the consultancy period.	Consultancy Services shall be available until the project completion as per the JICA. Extensions granted to the Contractors by the GM under PMU recommendation to complete the balance works after evaluating the reasons of Contractor's request. Accordingly the period of consultancy contract required to extend.	Consultant need to closely monitor the contractors work and remedial actions should be taken to complete the Project within revised time frame.

(b)	Intake Facility, Water Treatment Plant, Ground Sumps, Elevated Tanks, Office Buildings, Mechanical and Electrical Works (Lot- A)	Percentage	91.4	73.0	Possibility of extending the contract period may adversely affect to the Project performance.	As at 30th November 2021, 96.7% of progress achieved on 99.7% of target. Almost all civil construction works completed and all the imported M&E items were delivered to site.94.51% of M&E installations were completed as at 30th November 2021.	Action should be taken to complete the balance work within revised Project period.
(c)	Transmission Main & Sub main – 110mm dia. To 500mm dia – 88.7Km Distribution Main(HDPE) dia.110-400mm – Length of 163Km) (Lot - B)	Percentage	83.5	81.8	Delaying the other related contracts (Lot C-1 & Lot C-3) and possibility of extending the contract period may adversely affect to Project performance.	As at 30th November 2021, 92.94% of progress achieved on 96.8% of target. Zone wise work completion targets introduced to the contractor while closely monitoring the works on daily basis.	Immediate actions should be taken to complete the balance work and closely monitor the contractor works.
(d)	Laying of UPVC Pipes, Fittings and Special and Supply and Laying of DI and GI Pipes, Fittings and Specials in Issinbessagala Zone (Lot C-1)	Percentage	100	95.0	Delay of the completion of contract may adversely affect to the Project performance.	Flushing and Disinfection of pipe network is the only work item elapsed, which need to be attended after flushing the Lot B pipe lines and connecting the Lot C1 Lines to Lot B Lines by the Lot B Contractor.	Immediate actions should be taken to complete the pipe laying works of Lot-B contract to complete the Flushing and Disinfection of the distribution lines of Lot C-1 contract.

(e)	Laying of UPVC Pipes, Fittings and Specials and Supply and Laying of DI and GI Pipes, Fittings and Specials in Rambewa, East Rambewa & Ethakada Zones. (Lot C-3).	Percentage	100	95.0	Delay of the completion of contract may adversely affect to the Project performance.	Flushing and Disinfection of pipe network is the only work item elapsed, which need to be attended after flushing the Lot B pipe lines and connecting the Lot C3 Lines to Lot B Lines by the Lot B Contractor.	Immediate actions should be taken to complete the pipe laying works of Lot-B contract to complete the Flushing and Disinfection of the distribution lines of Lot C-3 contract.
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3.2 Contract Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The distribution main, Transmission main and sub main pipe laying contract of the Project which weightage 35.13 percent of the total Project scheduled to be completed on 11 December 2019. However, the contract period was extended by six times until 31 January 2022. According to the physical audit inspection conducted on 10 November 2021, the remaining 5,080.28 metres of pipe laying works, 72,048.15 meters of pressure testing works, 50 culvert crossings and installation of 103 valve chambers are required to be completed. However, it is doubtful whether the above remaining works can be completed within three months by 31 January 2022.	There is an impact on flushing and disinfection of C1/C3 small diameter pipe network. To minimize the negative impact, introduced zone wise completion plan to Lot B. By this plan, identified balance works in zonal basis and the contractor was instructed to complete the aforesaid balance works. .	Immediate actions should be taken to complete Lot B contract.

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| <p>(b) Distribution pipes laying contracts for 115 km length of UPVC, DI and GI pipes laying at Issinbessagala zone (Lot C-1 contract) and 119.6 km length of UPVC, DI and GI pipes laying at Rabewa, East Rabewa and Ethakanda zone (LOT C-3 contract) had been completed on 29 February 2020 and 15 July 2019 respectively. Even though the pipe laying works completed under these contracts, flushing and disinfection works of the pipe lines have been suspended by the contractors until the completion of distribution main and transmission main under the Lot B contract. Nevertheless, Project had issued the substantial completion certificates to these contractors on 12 March 2021 subject to carrying out flushing and disinfection works.</p> | <p>Under the zone wise plan to complete the balance work of Lot B, flushing and disinfection of these networks could be achieved after flushing and disinfection of Lot B.</p> <p>Final bill of Lot C1/C3 shall be submitted by the contractor after the completion of flushing and disinfection.</p> | <p>Immediate actions should be taken to complete the flushing and disinfection works of Lot-C1 and Lot-C3 contracts.</p> |
| <p>(c) Consultancy contract for detail designing and construction supervision of the Project was awarded on 23 June 2014 and scheduled to be completed by 14 September 2017. Subsequently, period of the consultancy contract had been extended up to 31 December 2021, due to delay of the completion of Lot-A and Lot-B contracts. As a result of extending the period of consultancy services of the Project, additional consultancy charges of Rs. 120.8 million and Japan Yen 24.6 million had been incurred by the Project.</p> | <p>Consultancy services shall be available until the project completion as per the JICA. Extensions were granted to the consultant and contractors by the GM of NWSDB under the recommendations of PMU to complete balance works after evaluating the requests of all parties.</p> | <p>Action should be taken to obtain fully services of the consultancy as per the TOR within scheduled period.</p> |

3.3 Observations made on Site Visits

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	The main construction contract for intake facility, water treatment plant, ground sumps, elevated tanks, office buildings, mechanical and electrical works of the Project was awarded on 13 March 2018 and scheduled to be completed by 20 April 2020. Subsequently, period of the contract extended up to 31 December 2021. According to the progress report contract, the overall physical progress of the contract was 73 percent lower than the expected physical progress of 91.4 percent as at 31 December 2020. During a physical audit inspection revealed that the yard pipe work, backfill work, landscaping and ceiling work on the Athakada elevated Tower, landscaping, finishing and cleaning work had not been completed.	Constructions of intake of WTP already completed and now in a process of testing the Mechanical installations. Now achieved 96.7% of physical progress under Lot A Contract as at 30th November 2021.	Action should be taken to complete the balance work without delay.
(b)	It was observed in physical audit inspection carried out at the pipe yard of the Lot-B contractor that the DI pipes and fittings HDPE pipes had not been stocked in a standard manner and pipe yard had not been maintained properly. As a result, some pipes and fittings have been corroded.	Steps already taken to regularize the stacking of pipes which was disturbed due to rapid growth of "Illuk" and "Mana" during the rainy period. Certain pipes which got corroded due to the damages caused during the transport and unloading were noted.	Action should be taken to stock the pipes in standard manner and maintain the stores properly.

3.4 Underutilized Resources

Audit Issues	Responses of the Management	Auditor's Recommendations
According to the project loan agreement, the due date for repayment of the loan was 20 March 2020. Subsequently, the loan period was extended to 05 July 2022, due to delays in the completion of Lot A and Lot B contracts. However, loan utilization was Japanese Yen, 3,214.81 million or 62.23 per cent of the agreed loan amount as at 31 December 2020. Further, the Government had repaid Rs.994.38 million equivalent to Japanese Yen 558.51 million to the Lending Agency from March 2020 to 17 September 2021. Accordingly, the loan repayment was initiated before the completion of the Project and utilization of the loan fully.	Mainly Due to delay in awarding the two major contract packages, loan disbursement period has been extended up to July 2022. But Loan repayment terms have not been changed by JICA and remain as per the initial agreement	Immediate action should be taken to complete the Project and request from JICA to change the loan repayment terms

3.5 Matters in Contentious Nature

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Value of contract bill payments amounting to Rs.868.74 million and USD 927,547 in respect of Lot A contract and Rs. 595.62 million and Japan Yen 892.522 million in respect of Lot B contract had been delayed from January 2018 to July 2020, due to insufficient foreign fund allocation for bill payments. Even though these outstanding bill payments had been settled in year 2020, financial charges amounting to Rs. 21.39 million, USD 10,429 and Japan Yen 1.32 million respectively had been charged by contractors as per the conditions of	This happened due to restriction by Government on Foreign fund allocation for all Projects. Payment of Financial Charges were Proceeded as per the conditions of contract of LOT A & B within the loan allocation following the approval obtained by GM.	Actions should be taken to pay eligible expenses through loan proceeds.

contract. Nevertheless, it was observed that the contrary to the loan agreement, 98 percent out of financial charges were erroneously paid through the loan proceeds instead of being paid under the GOSL proceeds in year 2021.

(b) As per the Loan Agreement of the Project, General administration expenses are not eligible for financing from the Loan proceeds. However, contrary to that a sum of Rs.3.6 million had been paid as salaries under the variation orders for the staff of the Project Management Unit (PMU).

(c) As per the project memorandum of the phase -01, Scheduled completion date of the Project was February 2018. Subsequently, it was extended up to month of July 2022, due to delaying the awarding and poor performance of the Lot-A and Lot -B contracts. As a result, Project had incurred Rs.132.7 million as additional overhead cost for maintaining the PMU and other site offices.

These payments made upon an approval obtained from NWSDB by presenting to the Variation Order Committee due to lack of staff recruited under the project

Delay of the awarding of contract Lot-A and Lot-B due to forged documents submitted by contractors at the prequalification stage , petition against to the alleging that experience certificates, delay of the SCAP and JICA approvals etc.

Actions should be taken to pay eligible expenses through loan proceeds.

Need to take action to complete the Project without further delaying.

3.6 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
According to the Management Audit Circular No.05 of 26 July 2010, the activities of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board in year 2020.	This Project is also audited by the Internal Audit of RSC (NC).	Internal audit should be carried out and reports should be submitted timely, due to RSC confirmed that internal audit had not been done in year 2020.