

Anuradhapura North Water Supply Project Phase II - 2021

The audit of financial statements of the Anuradhapura North Water Supply Project Phase II for the year ended 31 December 2021 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 Project Memorandum and 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 (NWSDB) 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. The balance amount of Rs. 4,819 million is expected to be financed 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 Qualified Opinion

In my opinion, except for the effect of the matters described in the 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 2021 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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 Deficiency

Accounting Deficiency	Amount	Management Response	Auditor's Recommendation
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	Rs. million		
Parity adjustments amounting to Rs.26.42 million made by the General Treasury up to 31 December 2021 had not been brought to the financial statements	26.42	The action will be taken to correct in the year 2022	Parity adjustment should be brought to the financial statements as per the LKAS-21 and action should be taken to reconcile the loan balances between Island accounts and Project accounts.

3. Physical Performance

3.1 Physical Progress

The activities of the Project consisted with 12 components and commenced its activities in June 2017. Out of that, only consultancy contract for detail design, bidding assistance and supply and delivery of 02 Nos of double cabs contracts had been awarded as at 31 December 2021. According to that contract regarding 10 components out of 12 had not been awarded up to 31 December 2021 even after a lapse of 54 months from the commencement date of the activities of the Project. Hence, there was no any significant physical progress had shown of the Project even up to 31 December 2021. However, progresses of the procurement process of the contracts as at 31 December 2021 are as follows.

Project component /Contract	Scheduled Activity by 31 December 2021 (As per the approved procurement plan)	Scheduled Period	Progress as at 31 December 2021	Audit Issues
(a) Consultancy services for detail design and bidding assistance for the Phase II	Detail design and procurement assistance	Scheduled to be completed by the month of November 2021	Detail design and procurement assistance stage	Delays in awarding contracts.

Management Response

Due to the COVID-19, restriction such as lockdown curfews, travel restrictions, limitation of work force etc. imposed by Government of Sri Lanka during the year 2021, the procurement process of taking approvals from the TECs, SCAPC, CPCC and final concurrences by JICA through ERD were taken more time than expected.

However, Consultant and PMU- ANWSP Phase II project, took all possible action to obtain approval for bidding documents from above authorities including JICA by continuous working during covid-19, travel restriction periods. Because of the continuous effort, the bids were called 5 out of 6 major packages during year 2021.

Further, detail design stage of the contract was completed by 31st of August 2020 and inputs from all the foreign & local experts related to design work were stopped. The consultancy contract is in procurement assistant stage since September 2020.

Auditor's Recommendation

Action should be taken to expedite the completion of contracts awarding without further delaying

(b) Construction of Intake Facility, Water Treatment Plant, water storage structures, Mechanical, Electrical and Buildings work (Lot A)	Execution of contract	From Month of November 2021 to month of May 2024	JICA concurrence for Pre-qualification applicants received. However, execution of the contact had not been commenced even up to 31 May 2022.	Possibility of delaying the awarding of contract.
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Management Response

JICA concurrence for the results of Pre-qualification was received on 24.10.2021. The first draft of the Lot A Bidding Document was prepared on 21.01.2021. However, due to the restricted working environment such as travel restrictions and limited work force during the COVID-19 period, obtaining the recommendations from TEC and obtaining approvals from SCAPC and amending the document accordingly got delayed as it is the largest project component compared to others since it comprises of the construction of Intake, WTP, all the other water retaining structures and building and the Mechanical and Electrical works of it..

The Bidding Document was submitted to JICA on 10.09.2021 and received JICAs comments on 11.10.2021.

After attending the JICAs comments the document was again sent for TECs review followed by SCAPC and Finally got the JICAs concurrence with their recommendations on 03.03.2022.

After amending the document as per JICAs recommendation, the Bid was called on 20.04.2022. It was expected to be closed on 29.06.2022 initially but due to the instruction from Ministry of Water Supply and requests from the Bidders, the date of Closing of Bid Submission is extended until 21.09.2022 because of the prevailing problematic situation of the country.

Auditor's Recommendation

Action should be taken to expedite the completion of contract awarding and commence civil works without delaying.

(c)	Supply and laying of DI, HDPE Transmission Mains and HDPE Distribution Mains (Lot B)	Execution of contract	From Month of November 2021 to month of April 2024	Technical evaluation is being carried out by TEC. However, execution of contract had not been commenced even up to 31 May 2022.	Possibility of delaying the awarding of contract
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Management Response

The Technical Bid Evaluation got delayed due to restricted working environment such as travel restrictions and limited work force. The Technical Bid Evaluation Report was sent to JICA on 03.03.2022 after obtaining the SCAPC approval. JICA made their observations and requested clarifications which required further clarifications to be answered by the Bidders. Accordingly, clarifications were requested from bidders and the bidders requested for more time pointing the current problematic situation of the country. However, the Clarification Assessment Report has been prepared and awaiting the approval from SCAPC.

Auditor's Recommendation

Action should be taken to expedite the completion of contract awarding and execution the contract without delaying.

(d) Supply and laying of HDPE, DI Distribution Mains and providing service connections for Padaviya and Kabethigollawa DS divisions (Lot C1)	Execution of contract	From August 2021 to November 2023	Bid closed on 13 October 2021 and evaluation is being carried out by TEC. However, execution of the contract had not been commenced even up to 31 May 2022.	Possibility of delaying the awarding of contract.
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Management Response

Procurement process got delayed due to the COVID-19, restriction such as lockdown curfews, travel restrictions, limitation of work force etc. imposed by Government of Sri Lanka during the year 2021. However, PMU- ANWSP Phase II project, took all possible action to obtain approval for bid documents from above authorities including JICA by working continuously even during covid-19, travel restriction periods. Because of the continuous effort, the bid for the Lot C1 was called on 21.07.2021, closed on 13.10.2021 and obtained JICA concurrence for Bid Evaluation on 08.04.2022 and the final draft cabinet paper was prepared jointly by PMU & MWS is at MWS to forward to cabinet for obtain approval since the 3rd week of April 2022. It was expected to award the Lot C1 package within 2nd week of May 2022. However, obtaining cabinet approval and the awarding of contract are getting delayed due to the current political crisis situation.

Auditor’s Recommendation

Action should be taken to expedite the completion of contract awarding and commence laying works without delaying.

(e) Supply and laying of HDPE, Distribution Mains and providing service connections for kahatagasdigiliya, Horowpothana and Rabawa DS Division (Lot C2)	Execution of contract	From October 2021 to December 2023	Bid closed on 21 October 2021. evaluation is being carried out by TEC. However, execution of the contract had not been commenced even up to 31 May 2022.	Possibility of delaying the awarding of contract
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Management Response

Procurement process got delayed due to the COVID-19, restriction such as lockdown curfews, travel restrictions, limitation of work force etc. imposed by Government of Sri Lanka during the year 2021. However, PMU- ANWSP Phase II project, took all possible action to obtain approval for bid documents from above authorities including JICA by working continuously even during covid-19, travel restriction periods. Because of the continuous effort, the bid for the Lot C2 was called on 28.07.2021 closed on 21.10.2021 and obtained JICA concurrence for Bid Evaluation on 08.04.2022 the final draft cabinet paper was prepared jointly by PMU & MWS is at MWS to forward to cabinet for obtain approval since the 3rd week of April 2022. It was expected to award the Lot C1 package within 2nd week of May 2022. However, obtaining cabinet approval and the awarding of contract are getting delayed due to the current political crisis situation.

Auditor's Recommendation Action should be taken to expedite the completion of contract awarding and commence laying works without delaying

(f) Supply and laying of HDPE, Distribution pipelines of providing service connections and construction of 250capacity water tower (Lot C3 for phase -I) Not Scheduled in approved work plan due to part of the Phase -01 - Bids called on 17 November 2021 and Expected to close on 12 January 2022. Possibility of delaying the awarding of contract.

Management Response JICA concurrence for preparation bidding document for Lot C3 package under the ANWSP Phase II detail design and Bidding Assistance Contract was requested on 11.10.2020 and the JICA concurrence is received on 02.02.2021 only. The TEC was appointed on 16.03.2022. Even though lockdown curfews, travel restrictions, limitation of work force imposed by Government of Sri Lanka during the year 2021 due to covid-19 pandemic, the PMU managed to get approval for bidding documents from TEC, SCAPC and JICA by continuous working during covid-19, travel restriction periods. Accordingly, the bid was called on 17.11.2022 and closed on 26.01.2022. The bid is being evaluated by TEC since 27.01.2022.

Auditor's Recommendation Action should be taken to expedite the completion of contract awarding and commence laying works without delaying

(g) Consultancy service for construction supervision (Lot F) Execution of contract Month of August 2021 to May 2024 RFP Issued on 14 July 2021 and closed on 22 September 2021. Technical evaluation forwarded to JICA for concurrence. Possibility of delaying the procurement of consultancy service for construction supervision.

Management Response Contract negotiation has to be carried out with successful consultant. Date of negotiation was not provided by MWS/CPCC due to current political and social crisis situation.

Auditor's Recommendation Action should be taken to expedite the completion of contract awarding and execution the contract without delaying

3.2 Contract Administration

No	Audit Issues	Management Responses	Auditor's Recommendations
(a)	<p>Consultancy contract for the Project had been awarded on 26 March 2018 only for the detail design and procurement assistance of the Project and it was scheduled to be completed by 20 February 2020 within 22 months. Subsequently, it had been extended up to 31 July 2022 due to delaying the detail designing. Even though the period of the consultancy contract for detail design and procurement assistance of the Project was expired on 31 July 2022, 10 Nos of Project contracts out of 12 had not been awarded even up to 31 July 2022.</p>	<p>The procurement process of taking approvals from the TECs, SCAPC, CPCC and JICA concurrences through ERD, obtaining cabinet approval and final JICA concurrence for awarding of contract are taken more time than expected due to the COVID-19, restriction such as lockdown curfews, travel restrictions, limitation of work force etc.. imposed by Government of Sri Lanka during the year 2021 and political and economic instability of the country. However, Consultant and PMU-ANWSP Phase II project, took all possible action to obtain approval for bid documents from above authorities including JICA by continuous working during covid-19, travel restriction periods. Because of the continuous effort, three out of six bids were in awarding stage, two bids were in evaluation stage and one bid in bidding stage.</p>	<p>Action should be taken to expedite the works.</p>
(b)	<p>A sum of Rs. 4 million had been allocated under the consultancy contract for conducting the public awareness campaign and seminars for communities. Even though the consultancy contract of the Project had been expired by 31 July 2022, such public awareness campaign and seminars for communities had not been conducted by the Project even up to 31 December 2021.</p>	<p>Due to the COVID-19 restriction such as lockdown curfews, travel restrictions, limitation of work force, avoiding of gathering, conducting meeting etc. imposed by Government of Sri Lanka during the year 2021, the public awareness campaign and seminars for communities were unable to conduct during the year 2021. However, PMU has started public awareness program in January 2022 and completed for divisional level government officers, political authorities, CBOs, farmer organizations, community leaders and people surround construction sites by April 2022.</p>	<p>Action should be taken to expedite the completion of public awareness before starting the Project constructions</p>

3.3 Matters in Contentious Nature

No	Audit Issues	Management Responses	Auditor's Recommendations
(a)	<p>The exchange gain on foreign transactions up to 31 December 2021 amounted to Rs.7.75 million shown under the work-in-progress could not be verified in audit, due to non-submission of monthly bank statement of Special (Yen) Account of the Project to the audit.</p>	<p>Central Bank has not submitted bank statements to NWSDB.PMU are taken the details through disbursement records (CS-DRMS Report 814) for accounting & recording purpose. Accordingly, PMU will request bank statement from Central Bank.</p>	<p>Actions should be taken to submit the monthly bank statements to audit.</p>
(b)	<p>Project had procured two double cabs at a cost of Rs. 19.59 million for Project works. However, out of that one double cab had been acquired by the head office. Currently, five engineers including Project director and sociologist are engaged in the Project works. In addition to that, Land acquisition for the construction, Road approvals for pipe laying works etc. measured, supervision and coordination with relevant Authorities and public awareness and coordination with public for relevant acquisition etc. are required to be done in order to expedite the Project construction. Nevertheless, it was observed only one double cab had been allocated under the transport facility for Project staff, while the Project director also had pointed out this issue on 06 October 2021. However, no any action had been taken by the head office to fulfill the adequate transport facilities to the Project or to release the Project vehicle acquired by Head Office even up to 30 June 2022.</p>	<p>Two Double cabs purchased for the Project. But at that time there was a requirement only for One cab due to PMU was in Colombo under design stage. Due to this reason PK 3420 vehicle temporary acquired by WSP with the commitment of releasing the vehicle on PMU request when necessary. The Project director requested to head office release the vehicle on 06.10.2021 and WSP informed that they need vehicle for coordinate their all projects. Therefore, GM NWSDB has approved to hire a vehicle. Accordingly, a vehicle has been hired 01.01.2022 and used for public awareness campaign, expedite the procurement process such as visiting the relevant authorities' offices for obtain approvals and coordination with public for relevant acquisition etc. However, the hired vehicle was stopped on 07.06.2022 due to unavailability of fund for the payment of hired vehicle.</p>	<p>Actions should be taken to furnish adequate Project facilities for smoothly implement the Project works.</p>
(c)	<p>Anuradhapura North Water Supply Project Phase II covers Kebithigollewa, Padaviya, Horowpothana, and Kahatagasdigiliya Divisional Secretary areas which are the areas where people depend with</p>	<p>The procurement process of taking approvals from the TECs, SCAPC, CPCC and JICA concurrences through ERD, obtaining cabinet approval and final JICA concurrence for awarding of contract are taken more time than</p>	<p>Maximum efforts should be taken to complete the Project within revised Project period to achieve the</p>

unsafe contaminated ground water which causes dental and skeletal fluorosis as well as one of the main hazardous factors for spreading chronic kidney disease and higher number of patients recorded in these rural areas when compared with other Districts. Hence, the Government has given priority to implement these water supply Projects to provide safe drinking water. The audit observed that the water supply projects in this area need to be completed within the scheduled time frame for the people to get relief without delay. However, procurement process of the project was not in the procurement plan and no any civil construction contracts of the Project had been awarded even after lapse of 54 months from the commencement of the activities. As a result, it was observed that the completion of the Project within the revised Project period is in doubt.

expected due to the COVID-19, restriction such as lockdown curfews, travel restrictions, limitation of work force etc. imposed by Government of Sri Lanka during the year 2021 and political and economic instability of the country.

government objectives from the Project.

However, Consultant and PMU-ANWSP Phase II project, took all possible action to obtain approval for bid documents from above authorities including JICA by continuous working during covid-19, travel restriction periods. Because of the continuous effort, three out of six bids were in awarding stage, two bids were in evaluation stage and one bid in bidding stage.

3.4 System and Controls

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Although a sum of Rs.1,338 million had been allocated for the year 2021, only Rs. 3 million equivalents to 0.22 percent of allocation had been utilized during the year under review.	When preparing 2021 budget at the middle of 2020, It has been planned to process the advance payments & some progress payment on 2021 Q3 onwards as mentioned below table. But due to current financial & economic situation in the country and especially due to delay of getting cabinet approval, getting JICA concurrences since April 2022, it was unable to achieve the expected target.	Actions should be taken to achieve the expected target as per the work plan.
(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.	So far have not conducted any internal audit for ANWSP phase II since start.	Actions should be taken to carried out an internal audit.