

## **Anuradhapura North Water Supply Project Phase I - 2022**

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The audit of financial statements of the Anuradhapura North Water Supply Project Phase 1 for the year ended 31 December 2022 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 into 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 and Estate Infrastructure Development 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 three times up to 05 January 2024.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022 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 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 Deficiencies**

<b>Accounting Deficiency / Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
A fixed asset register had not been maintained and accounted for 178 items of office equipments, office furniture and computers supplied by the contractors and the consultancy service company to the Project Monitoring Unit and verified at the board of survey for the year 2022.	RSC (NC) has started the Capitalization process for the handed over Assets. Will do the adjustment for Balance assets in 2023 accounts. Total Amount of Rs. 17.97 million valued 178 items of Assets mentioned in contractor's BOQ documents. But these all assets are not fixed assets. As per the BOQ that 17.97 million, value contain establishment of office, water supply, electricity, stationary, office utilities and first aid facilities etc.	Action should be taken to capitalize the remaining assets as well as fixed assets provided by contractors under BOQ items. Since the project office had not kept the clear records on those assets it need to identify and classify the assets before take them in to accounts.

**3. Physical performance**

**3.1 Physical progress**

Project commenced its activities in February 2013 and scheduled to be completed within five years. Even though it had lapsed nine years and ten months from the date of commenced at the end of the year under review, the physical and financial progress of the Project was remained as 98.56 percent and 92.3 percent respectively. However, the Project had achieved only 2.78 percent of Physical progress during the year under review. The Cumulative progress of each activities of the Project is as follows.

<b>No.</b>	<b>Activity</b>	<b>Expected target</b>	<b>Target achieved as at 31 December 2022</b>	<b>Audit Issues</b>	<b>Responses of the management</b>	<b>Auditor's Recommendation</b>
		<b>%</b>	<b>%</b>			
(a)	Laying of PVC Pipes, Fittings and Special and Supply and Laying of DI and GI Pipes, Fittings and Specials in Issinbessagala Zone (Lot C-1)	100	95	Achieving the expected objective of the project will further be delayed.	Flushing and disinfection of Lot C1 and Lot C3 were delayed due to non-completion of Lot B – Lot C connections. However, The connection works are started by Lot C1 contractor from August 2023.	Remedial action should be taken to complete the balance work of this componant

(b)	Laying of 100 PVC 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)	96	Achieving the expected objective of the project will be delayed further.	Contractor restarts the works from July 2023 and continue flushing and disinfection works. 44km flushing and 28km of disinfection have been completed up to now. (116km flushing, 132 km disinfection and 58 Lot B – Lot C connections remained)	Necessary actions should be taken to expedite the cleaning and disinfection works. Further, need to be closely monitored contractors works regularly in order to complete within the time frame.
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### 3.2 Contract Administration

No	Audit Issues	Responses of the management	Auditor's Recommendation
(a)	Even though the project commenced its works on February <b>2013</b> the main contract, including Intake facility, water treatment plant, ground sumps, elevated tanks, office buildings, mechanical and electrical works which were needed to be initiated before start the other part of the project, had been started after laps of five years from the beginning of the project in March 2018. This delay mainly impacted to poor performance of the whole project and it was a result of significant delay in completion of Bid documents and tender evaluation process.	Not answered	Action should be taken to get expected outcome of the project within scheduled time period.
(b)	The main pipe laying contract for supply and laying of 88.7 km HDPE transmission main and 163 km of HDPE distribution main (Lot B contract) was awarded on 08 November 2017 and scheduled to be completed within 2 years. Even though, the period of contract had been extended 08 times up to 31 August 2022, the overall physical progress was remained at 98 percent by 31 December 2022. Further it was observed that out of 147 Lot B and Lot C pipeline connections to be done under the project and 12 connections had only been completed even up to 19 July 2023.	Not answered	Necessary actions should be taken to complete balance works without further delay.

### 3.3 Observation made on site visits

No	Audit Issues	Responses of the Management	Auditor's Recommendation
(a)	<p>This project has been started in the year 2013 with the objective of providing safe drinking water for population of around 115,000 in 25,000 families which covers 75 Gramaniladari divisions in Medawachchiya and Rabawa divisional secretariats in Anuradhapura district where the people depend on unsafe contaminated ground water which causes dental and skeletal fluorosis and highly tend to have chronic kidney diseases. After laps of ten years with 8 extensions and spending to Rs 8,285 million, the project has recorded more than 90 percent progress at the end of the year under review and also the government had paid amount of Rs. 45.68 million as commitment charges in respect of the underutilization of agreed loan and Rs.1,309 million as capital repayment. However the expected results from this project had not been received to the beneficiaries due to inability of extract the required daily water capacity of 9,400 cubic meters from Mahakanadarawa Reservoir which is the main water source for this project.</p> <p>The continuous objection of Farmers Organization to release water to the project was observed by the audit during the field inspection on 19 July 2023 and the reason for this objection had not been assessed at the feasibility study.</p>	<p>Though the loan extended up to January 2024, re-payment schedule was not changed. Therefore, re-payment was started according to the schedule. A proper feasibility study has been done at the beginning of the project and a Memorandum of Understanding has been signed in 2012 between National Water Supply &amp; Drainage Board and Irrigation Department. However, the required water quantity is not issued as agreed by the signed MOU as a result of protests made by farmers. However, by conducting series of meetings with GA, Irrigation Department and Farmer Organizations and by conducting awareness programs for farmers, NWSDB will able to extract 312 Ac.Ft (From Oct 2022 to August 2023) of water for testing, flushing and disinfection works of the project.</p>	<p>Necessary action should be taken to give the expected benefits to the beneficiaries without further delay.</p>
(b)	<p>According to the memorandum of understanding(MOU) signed by the Irrigation Department and the National Water Supply and Drainage Board in the year 2012 in relation to extracting water from Mahakanadarawa Reservoir to the project, Irrigation Department had agreed to extract the short term requirement of 6,700 cubic meters per day after the completion of Mahakanadarawa water treatment plant. However, the irrigation Department is currently issuing only 1 acre foot (1233 cubic meters) of water per day only for the testing</p>	<p>NWSDB is unable to achieve connection targets due to not issuing of water from Mahakanadarawa. To solve this matter, a higher level decision is expected through higher level discussions between Irrigation Department and Ministry of Water Supply.</p>	<p>Action should be taken to overcome the existing issues and get expected outcome of the project</p>

works of water treatment plant and the disinfection works of pipelines.

- (c) As a remedy for the main issue of not having water source, an irrigation system development project which is Restoration of RB canal of Eruwewa enabling its excess water flow to Mahakanadarawa and rehabilitation of mahakanadarawa irrigation system had been started for an estimated amount of Rs.381 million. Rs.176 million have been paid by the Ministry of Water Supply to the Department of Irrigation for the development works up to the end of the year 2022. However this alternative solution had not been completed and the expected results from this project may be further delayed without having value for money spent up to now.
- By rehabilitation of RB canal of Eru Wewa, it was able to get additional 3000Ac.ft water quantity to Mahakanadarawa during 2022. And also, the capacity of Mahakanadarawa reservoir was increased by about 2400 Ac.ft by increasing of the spill. It is essential to release the balance amount of 381 Million (205 Mn to be released) to complete the irrigation improvements as per the signed MOU.
- Necessary Action should be taken to overcome the existing issues and get expected outcome of the project
- (d) According to the MOU signed with the Department of Irrigation has agreed to release the full capacity to the water treatment plant after the completion of NCP canal Project which is currently being implemented by Mahaweli Authority. According to the information obtained from the Mahaweli Authority by the audit, that construction works of awarded contracts are still in the initial stage and expected to be completed by 2030 as well as some packages are remained to be awarded in latter part of the project.
- Therefore, a concrete decision is to be taken at a higher level to get the required water quantity continuously to the treatment plant to provide water to beneficiaries of the project. For that, a higher level discussion is expected between Irrigation Department and Ministry of Water Supply. Mahaweli Authority has a responsibility and it is very important to expedite the NCP canal project.
- Collaborative action should be taken by the relevant authorities to overcome the existing issues
- (e) Project had initially planned to build a caretaker quarter at Mahakanadarawa treatment plant premises under the Lot A contract. Subsequently, it had been changed and decided to build a circuit bungalow at Mihinthale in the year 2020. It was observed that, only structural civil works of the building had been completed and all finishing works including landscaping works remained to be done even at the date of audit on 21 July 2023. Further, It was observed that no supervision been held on this constructions by the consultants and a log book was not maintained in the site to verify the quality of the works
- According to the specification & BOQ, the tiles shall be Rocell or equivalent. Due to the ban of importing tiles imposed by the government since 2020, there was a huge queue to buy Rocell tiles resulting an increasing of price drastically. However, the contractor laid tiles on the roof terrace which is not approved and not paid yet. PMU is checking, for the deviations between the specifications of the laid tiles Rocell and considering the
- As per the instructions given by procurement guideline and the specification in the BOQ of this contract, it is essential to use the specified tiles or equivalent.

and the way of supervision. As a result, there was a possibility to use low quality materials for constructions and it was observed in the audit field visit the contractor has used imported Floor tiles in order to use Rocell brand.

possibility to pay the tiles at a reduced rate.

(f) Due to the temporary suspension of disbursement by donor agency (JICA) from March 2022, payment of the value of Rs.666.5 million certified contractors' bills had to be halted. Accordingly the contractors are not actively involved to the final stage activities of the project. The action was taken by responsible officers to complete the remaining latter part of the project to reduce unnecessary and uneconomical expenditure such as maintaining the PMU, Depreciation of assets without having utilize, commitment charges, loan interest and installments and also opportunity cost of the beneficiaries.

The contractors are facing a severe cash flow issues with delaying payments for certified bills but continue the balance works at a slow progress. JICA has agreed to reimburse the amount which will be arranged under GOSL funds. Therefore, requests have been made to treasury to arrange the outstanding amount from GOSL. Accordingly, PMU has informed the situation to Ministry of Water Supply, ERD, Treasury and JICA to actively involve to settle at least part of the outstanding payment even by using local funds. And action are taking to reduce administration and other recurrent expenditure.

Necessary steps should be taken to complete the balance work of the project and settle the outstanding bills immediately.

### 3.4 Matters in Contentious Nature

#### Audit Issue

The project has incurred to Rs.38.33 million as staff salaries and other administration expenses for the period of 18 months from January 2022, however the total progress of the project for that period was 3.39 percent. Meanwhile, only 4.54 percent works remained to be completed in this project by 31 December 2021, due to non-payment of outstanding bills of contractors they have poorly involved to project activities. Accordingly the Government had to maintain a project office in uneconomic way.

#### Responses of the Management

The PMU office was relocated to a NWSDB owned quarters and reduced the staff. Now, the PMU is functioning with 5 No. of essential minimum staff which is required to complete the balance works, Checking of contractor's final bills handing over works and capitalization of the project.

#### Auditor's Recommendation

Action should be taken to minimize uneconomic expenditure

### 3.5 Project Administration

No	Audit Issues	Responses of the Management	Auditor's Recommendation
(a)	Proper records had not been maintained as per the Financial Regulations No.751 regarding the total value of Rs.1 million Laboratory equipment, connection materials, Pipes, Fittings and accessories which were handed over by contractors to the laboratory and main stores at Water Treatment Plant (WTP)	Handing over process of the mentioned items is going on and instructed relevant officers to complete the process at the earliest possible.	Action should be taken to comply with Government rules and regulations.
(b)	According to the Management Circular No.05 dated 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 the year 2022.	Generally project activities have been audited by Internal Audit of NWSDB from beginning. However the internal audit of the PMU had not been conducted.	Action should be taken to conduct internal audits regularly.