

Second Community Water Supply and Sanitation Project Liquidation - 30 June 2011.

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1. Opinion

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In my opinion, except for the matters described in paragraph 3 of this report, the liquidation financial statements give a true and fair view of the financial position of the Second Community Water Supply and Sanitation Project as at 30 June 2011 and cash flow for the half year then ended in accordance with Generally Accepted Accounting Principles.

2. Financial Statements

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2:1 Financial Performance

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(a) According to the financial statements and the information made available, the cumulative expenditure of the Project as at 30 June 2011 had been as follows.

Particulars	Cumulative Expenditure as at 30 June 2011
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	Rs.'000
Civil Works	4,953,805
Fixed Assets	113,720
Consultancy Services	1,216,512
Training	149,920
project Management	373,126
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Total	6,807,083
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(b) The particulars of funds released to the Project by the International Development Association up to 30 June 2011 had been as follows.

Particulars	Amount Allocated	Amount Released
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	SDR	SDR
Civil Works	16,010,000	16,443,027
Fixed Assets	550,000	552,659
Consultancy Services	5,990,000	5,698,993
Training	870,000	634,318
Project Management	370,000	406,727
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Total	23,790,000	23,735,724
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Even though the utilization of funds as at 30 June 2011 had been 99 per cent, the utilization of funds for the consultancy services and training had been 95 per cent and 72 per cent respectively.

- (c) The financial progress of the Project completed on 30 June 2011 had been as follows.

Particulars	International Development Association	Government of Sri Lanka	Provincial Councils and Pradeshiya Sabhas	Community	Total
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Agreed Contribution (Rs.Millions)	3,186	715	350	1,475	5,726
Actual Cumulative Contribution as at 30 June 2011 (Rs. Millions)	4,002	655	323	1,827	6,807
Utilisation of Funds as a Percentage	126%	92%	92%	124%	119%

The following observations are made in this connection.

- (i) The Project was scheduled for completion by the end of June 2009 but the Project Period had been extended up to 30 June 2011. The International Development Association and the Government of Sri Lanka had reported financial performance of Rs.4,002 million and Rs.655 million respectively by the end of the Project. The Provincial Councils and the Pradeshiya Sabhas had also reported financial performance of Rs.323 million. Nevertheless, according to the cost of construction, the agreed contribution of the Provincial Councils and the Pradeshiya Sabhas had been Rs.445 million whereas the actual contribution had been a lesser sum of Rs. 323 million.

Similarly, the Pradeshiya Sabhas had not made any contribution whatsoever in connection with the construction works relating to the District Offices of Ampara and Trincomalee while the community contribution by the Community based Organizations of the Trincomalee District and the Estates Sector of the Central Province had been at low levels of 17 per cent and 13 per cent respectively.

- (ii) Out of the estimated provision made by the International Development Association for expenditure on Consultancy Services and Training of the Project, sums totaling US\$ 1.07 had not been utilized and that represented 10 per cent of the estimated amount. The operating expenses had exceeded the operating expenditure estimate amounting to US\$ 0.03 million. As such the operating expenditure from the year 2008 up to the completion of the Project amounting to Rs.89,884,135 had been met from local funds.
- (iii) Purchases of goods valued at Rs.2.32 million had not been reimbursed by the International Development Association due to the failure to take action in terms of the instructions in the Procurement Guidelines.

3. Audit Observations  
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The following observations are made.

3:1 Physical Progress  
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(a) Water Supply Projects  
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The physical progress of Groups I, II, III and IV as at 30 June 2011 is as follows.

Province	Approved Project Units	Project Units Implemented	Suspended Project units	Project units not completed
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Central	502	469	33	18
Central – Estates	09	09	--	--
North Western	264	256	08	--
Eastern				
Trincomalee	24	14	10	04
Ampara	41	30	11	--
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	840	778	62	22
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The following observations are made in this connection.

- (i) Even though all the Water Supply Projects relating to the Project should have been completed by 30 June 2011, the work on 18 sub-projects in the Central Province and 04 sub-projects in the Eastern Province had not been completed. The Project had spent a sum of Rs.95.68 million on the 22 incompleting projects.
  
- (ii) According to information relating to the above Groups that could be gathered, 62 sub-projects had been abandoned due to reasons such as the lack of water sources, lack of community participation and taking over of the sub-projects by the National Water Supply and Drainage Board. The Project had incurred preliminary expenditure amounting to Rs.33.23 million on those projects. Water Supply Systems had been deprived to 37,115 house holders due to abandoning of those projects.

3:2 Sanitation Programme  
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Even though carrying out improvements to 55,581 units of latrines under Groups I, II, III and IV of the Project had been planned, 54,490 units only had been completed as at 30 June 2011. The progress of the Sanitation Programme is given below.

Province/District -----	Sanitation requirement ----- Units	Latrines completed ----- Units	Percentage of Achievement ----- %	Amount utilized ----- Rs.Millions
Central Province	34,588	38,688	112	54.68
North Western Province	9,722	10,783	111	13.78
Trincomalee	7,237	2,236	31	16.37
Ampara	3,234	2,472	76	8.78
Estate Sector	800	311	39	1.20
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	55,581	54,490	98	94.81
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The following observations are made in this connection.

- (i) A sum of Rs.94.81 million under the Sanitation Programme had been given as at 30 June 2011 to the beneficiaries through the Community Based Organizations and the recovery of that amount should be through the Revolving Fund. Nevertheless, the targeted number of latrines could not be completed due to the failure of the Community Based Organizations to recover the funds properly and used the money received for the Sanitation Programme for construction works.
- (ii) Even though the Project had made available a sum of Rs.16.37 million to the District Office, Trincomalee for sanitation activities, the progress thereon as at 30 June 2011 had been as low as 31 per cent.
- (iii) The physical progress of the sanitation activities of the Estates Sector had been 39 per cent and the Sanitation Programme of the Estates Sector could not be implemented as expected, due to the inadequacy of the contribution received from the Estates Management.

3:3 Assets of the Proejct  
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- (a) Out of the fixed assets valued at Rs.113,719,788 belonging to the Project 82, per cent had been issued to the Sub-project Divisions mainly established under the Provincial Councils and 17 per cent and 1 per cent had been issued to the line Ministry and several Government institutions respectively. The following observations are made in this connection.
  - (i) The acknowledgements obtained from the respective institutions confirming the handover had not been furnished.
  - (ii) The objective of handover of those assets to the Sub-projects established under the Provincial Councils is the uninterrupted continuation of the future activities of the Project. But according to the information provided it was revealed that the objective had not been achieved.
- (b) The cumulative expenditure amounting to Rs.6,693.36 million incurred on the civil works, consultancy services, training and Project Management had not been correctly identified and absorbed to the relevant Project beneficiaries.

3:4 Achievement of Objectives of the Project  
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The progress of the activities of the Project established for the fulfilling of clean drinking water needs and an adequate sanitary and health facilities of the community achieved by the completion of the Project on 30 June 2011 according to the Project Agreement and the Project Reports had been as follows.

Particulars	According to the Project Agreement	According to the Project Completion Report	Progress of Achievement as a Percentage
Number of Beneficiary Family Units	220,000 (Central and North Western Provinces)	171,341 (Central, North Western, Northern and Eastern Provinces )	78%
Number of Beneficiaries	1,230,000	719,700	58%
Water Supply Projects			
- Pipe Borne Gravity Schemes	41%	18%	44%
- Pipe Borne Pumping Schemes	25%	78%	312%
- Common Dug Wells	21%	0.5%	2%
- Deep Wells with Hand Pumping	8%	0.3%	4%
- Rain Harvesting	5%	3.2%	64%

The following observations are made in this connection.

- (a) The number of water supply beneficiaries and the beneficiary family units had been at lesser percentages of 58 and 78 respectively.
- (b) Except the Pipe Borne Pumping Schemes, the percentage of achievement of progress of Water Supply Projects according to water sources had been at a very low level.
- (c) Even though 05 measurement indicators had been introduced for the post Project Period according to paragraph No. 10(a) of the Project Agreement for carrying out an evaluation to ensure that the main objective of the use of Water and Sanitation Services of the Sri Lankan rural community is maintained efficiently and continuously, a survey or a supervision of those measurements had not been conducted after the completion of the Project.

As such carrying out an evaluation to ensure whether the objectives of the Project had been achieved as expected had become a problematic issue.

3:5 Going Concern of the Project  
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According to the information furnished in the year 2012 by the National Community Water Trust established on 30 December 2011 for the continuation of the future activities of the Project, it had become a difficult task to maintain the Project continuously, due to reasons such as the failure of the respective Pradeshiya Sabhas to provide the agreed 5 per cent contribution regularly, subsequent drying up of the water sources of water projects, changes in the quality of water, technical problems, supply of water to a larger number of beneficiaries and the failure of the respective Community Based Organizations to ensure the protection and existence of the projects. As such it had been estimated that the expenditure on the rehabilitation of these projects would cost about Rs.285.90 million.

Even though a request had been made to the Community Based Organizations established under the Project to register under the Community Water Trust, that institution had noted that the registration is at the minimum level as the Community Based Organizations had collapsed.