

**Secondary Towns and Rural Community Based Water Supply and Sanitation Project
(Loan No 2276 - SRI) - 2012**

1. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 3 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2012 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2012 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2012 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) the statements of expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreement had been complied with.

2. Financial statements

2.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2012 amounted to Rs.605,860,773 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 9,930,822,965. A summary of the expenditure for the year under review, expenditure for the

preceding year and the cumulative expenditure as at 31 December 2012 is shown below.

Item	Expenditure for the year ended		Cumulative Expenditure as at 31 December 2012
	31 December		
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	2012	2011	
	Rs.	Rs.	Rs.
Civil Works	372,819,470	801,451,254	5,792,069,684
Equipment and Materials	146,935,500	331,997,152	3,739,716,684
Interest Chargers	<u>86,105,803</u>	<u>49,519,724</u>	<u>399,036,597</u>
Total	<u>605,860,773</u>	<u>1,182,968,130</u>	<u>9,930,822,965</u>

2.2 Imprest Fund Account

According to the financial statements and the information made available, the operations of the Imprest Fund Account for the year ended 31 December 2012 and the balance available in that account as at that date are given below.

	US \$	RS
Balance as at 01 January 2012	47,744	5,438,128
Add. Foreign Exchange Gain	-	705,403
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	47,744	6,143,531
Less: Withdrawals	47,744	6,143,531
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Balance as at 31 December 2012	<u>Nil</u>	<u>Nil</u>

3. Audit Observations

3.1 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- a) Although interest recovered by the funding agency from 2007 to 31 December 2012 amounting to Rs.158,585,186 should be accounted as interest expenses and ADB loan as per the Loan agreement entered into between GOSL and ADB, interest paid by the NWSBD from 2007 to 31 December 2012

amounting to Rs.399,036,598 had been accounted as interest expenses and interest payables of the Project as per subsidiary loan agreement entered into between GOSL and NWSDB. Therefore, interest expenses had been overstated by Rs.240,451,412 and ADB loan had been understated by Rs.158,585,186 as at 31 December 2012.

- b) Payables to a contractor aggregating Rs.120,534,606 had been accounted as fund receivable from General Treasury and contribution from Government of Sri Lanka without obtaining any commitment or consent from the General Treasury.

3.2 Operating Inefficiencies

Following observations are made.

- a) Two out of 04 contracts to the value of Rs.8,038,196,706 had been delayed from 19 months to 23 months when compared with the scheduled dates of completion.
- b) Although two contracts to the aggregate value of Rs.8,038,196,706 had been handed over by the contractor to the NWS&DB on substantive completion certificates dated 20 October 2011 and 30 April 2012, final completion report had not been issued even up to 31 October 2013.

4. Financial and Operating Review

4.1 Utilization of funds

Following observations are made.

- a) A comprehensive detailed action plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc covering entire Project period should be prepared to ensure the achievement of Project objectives using allocated resources within scheduled time period. However, such plan had not been prepared and implemented by the Project.
- b) According to the information made available, financial progress of the Project as at 31 December 2012 is given below.

	<u>ADB</u>	<u>GOSL</u>	<u>Total</u>
Agreed contribution (in US\$ million)	46.5	24.0	70.5
Add –Parity difference	2.3	-	2.3
Supplementary Provision	-	17.9	17.9
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Total Allocation	48.8	41.9	90.7
Actual expenditure Up to 31 December 2012 (in US\$ million)	48.8	35.7	84.5
Utilization of funds as a Percentage	100	85.2	93.2

- c) Certain significant statistics relating to the financing and budgetary provision for the year under review, utilization of funds during the year under review and the cumulative utilization as at 31 December 2012 are shown below.

	Amount agreed to be provided		Budgetary	Funds utilized	Funds utilized up
	US\$ (Mn)	Rs (Mn)	provision for	during	the
			the year 2012	the year	to 31 December
					2012(Cash Basis)
	-----	-----	-----	-----	-----
	US\$ (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)
ADB	48.80*	5,500.80	359.39	345.61	5,488.79
GOSL	41.87	4,720.10	158.75	140.93	3,891.03
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Total	<u>90.67</u>	<u>10,220.90</u>	<u>518.14</u>	<u>486.54**</u>	<u>9,379.82**</u>

** The above mentioned figures differ from the figures shown in paragraph 2.1 of this report, due to effect of accrued expenses.

4.2 Physical Progress

According to the information made available for audit, five sub projects were expected to be implemented at a cost US\$ 70.5 million at the inception. However one sub project had later been excluded and the cost of the balance four sub projects had been revised. As a result, the total cost of the sub projects had increased by 43.3 per cent mainly due to delay in implementation of the Project. Progress and cost details are as follows

Sub Project No	<u>Cost in US\$ million</u>		Actual cost as	Physical
	Initial 2006	Revised	at 31 December 2012	progress
-----	-----	-----	----- us \$ million	----- %
(i) HW&T/UWS/ PA1/BAT/ICB	35.81	51.93	50.30	100
(ii) PW&ET/UWS/PC1/BAT/ICB	13.75	22.13	20.90	100
(iii) PW&ET/UWS/PC2/HAM/ICB	7.94	11.0	10.46	100
(iv) DR/UWS/PG2/MUT/NCB	0.62	0.71	0.69	100
(v) Interest and other chargers	5.12	4.89	2.24	
Total	<u>63.24</u>	<u>90.66</u>	<u>84.59</u>	