

**Secondary Towns and Rural Community Based Water Supply and Sanitation Project
(Loan No 2758 -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.399,646,667 and the cumulative expenditure as at 31 December 2012 amounted to Rs.457,318,532. 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 31 December		Cumulative Expenditure as at 31 December 2012
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	2012	2011	
	Rs.	Rs.	Rs.
Civil Works	334,789,848	18,325,128	353,114,976
Consultancy Service	58,670,926	39,283,724	97,954,649
Incremental Operational Cost	4,263,954	-	4,263,954
Interest Chargers(Subsidiary)	1,921,939	63,013	1,984,953
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Total	<u>399,646,667</u>	<u>57,671,865</u>	<u>457,318,532</u>

2.2 Imprest Fund Account

According to the financial statements and 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.

	<u>US \$</u>	<u>RS</u>
Balance as at 01 January 2012	Nil	Nil
Add: Replenishments	1,663,663	205,078,526
Foreign Exchange Gain	-	8,488,800
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	1,663,663	213,567,326
Less: Withdrawals	604,645	78,901,756
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Balance as at 31 December 2012	<u>1,059,018</u>	<u>134,665,570</u>

3. Audit Observations

3.1 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- a) Although interest recovered by the funding agency for the year 2012 amounting to Rs.3,205,794 should be accounted as interest expenses and ADB loan as per the Loan agreement entered into between GOSL and ADB, interest paid by the NWSDB for the year 2012 amounting to Rs.1,984,953 had been accounted as interest expenses and interest payables of the Project as per subsidiary loan agreement entered into between GOSL and NWSBD. Therefore interest expenses and ADB loan had been understated by Rs.1,220,841 and Rs.3,205,794 respectively for the year 2012.
- b) Payables to the four contractors aggregating Rs.64,578,167 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

Although supply and laying of treated water pumping main distribution pipe (10.5 Km) and construction of elevated water (2.nos) contract at a value of Rs.1,162,504,731 carried out with the financial assistance of the Loan No 1993 had been completed with

the delay of two years on 30 September 2011, it had been idle as the contract of construction of head work and water treatment plant which should have been completed parallel to the above contract for the execution of entire work had been very much behind the schedule. It was further observed that 75 per cent of revised target had expired as at 30 June 2013. However, overall physical progress of this contract was 42 per cent as at that date.

4. Financial Review

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 the 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)	13.3	4.87	18.17
Actual expenditure Up to 31 December 2012 (in US\$ million)	2.9	0.7	3.6
Utilization of funds as a percentage	21.8	14.4	19.8

- 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 the year 2012	during the year	to 31 December 2012 (Cash Basis)
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	US\$ (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)
ADB	13.3	1,206.30	319.28	307.04	455.31
GOSL	4.87	511.00	44.16	39.21	78.49
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Total	<u>18.17</u>	<u>1,717.30</u>	<u>363.44</u>	<u>346.25*</u>	<u>533.80*</u>

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