

Greater Colombo Water Rehabilitation Project - 2011

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 2011 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2011 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) 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,
- (d) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and.
- (e) 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 expenditure of the Project for the year under review amounted to Rs.1,311,682,460 and the cumulative expenditure as at 31 December 2011 amounted to Rs.2,136,595,943. A summary of expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2011 is shown below.

Item	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2011
	2011 Rs.	2010 Rs.	Rs.
Civil Works	952,669,759	367,997,436	1,323,215,282
Operational Cost	213,738,637	82,733,476	415,914,376
Consultancy Service	51,689,398	63,577,776	193,942,392
Value Added Tax (VAT)	93,584,666	94,602,987	203,523,893
	<u>1,311,682,460</u>	<u>608,911,675</u>	<u>2,136,595,943</u>

3 Audit Observations

3.1 Accounting Deficiencies

Following observations are made.

- (a) Sums of Rs. 3,487,816 and Rs. 61,370 had been spent out of the Project funds for the activities of NWSDB and Rehabilitation of Southern Catchment and Non-Revenue Water Projects respectively.
- (b) A sum of Rs.50,775,374 related to construction works certified in 2011 had not been brought to the accounts. As a result, both Project expenditure and the amount payable to the contractor shown in the Financial Statement as at 31 December 2011 had been understated by the similar amount.
- (c) The Project had acquired a plot of land for construction of a new office building and agreed to make payments in installment basis. However, such payments had not been made as agreed and as a result, an additional cost of Rs.1,656,666 had to be incurred by the Project in 2011, as penalty.
- (d) An additional cost of Rs.4,816,276 had to be incurred for rock excavations made for erecting of Elie House Reservoirs due to failure of identification of an underground rock in the land identified at the preliminary investigations.

4 Financial and Physical Performance

4.1 Utilization Funds

Certain significant statistics relating to the funds allocated and their utilization as at 31 December 2011 are given below.

	Amount agreed to be provided in the Loan Agreement		Allocated for the year 2011	Funds Utilized in the year 2011	Funds Utilized up to 31 December 2011	
	JPY (Mn)	Rs. (Mn)	Rs. (Mn)	Rs. (Mn)	Rs. (Mn)	%
JICA	3,975	3,549	868	838	1,883	53
GOSL	1,384	1,236	320	320	644	52
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TOTAL	5,359	4,785	1,188	1,158 *	2,527*	53
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*This amounts differ from the amounts shown in paragraph 4.1 of this report due to exclusion of net working capital of Rs.153 million and Rs.391 million relating to funds utilized for the year under review and the funds utilized up to 31 December 2011 respectively.

4.2 Financial and Physical Performance

Following observations are made.

- a) According to the progress reports furnished for audit, the overall physical and financial Progress of the Project as at end of the year under review was 66 percent and 49 percent respectively. Cumulative performance of the each component of the Project is shown bellow.

Project activity / component	Due date for completion	Progress as at 31 December 2011 (%)	
		Financial	Physical
(i) Construction of Maligakanda Office Building (WSDP/GCWRP/NCB/01)	31 May 2011	81	99
(ii) Distribution Mains in Mulleriyawa and Kotikawatta Area (WSDP/GCWRP/NCB/02)	19 July 2012	57	61
(iii) Reconstruction of Elie house Reservoir, Construction of Maligakanda New Reservoir, Gothatuwa Transmission Main and Gothatuwa New Water Tower (WSDP/GCWRP/ICB/03)	25 Nov 2012	39	48
(iv) Low income settlement water supply improvements	01 Jan 2012	18	62
Overall Progress		49	66

b) The component of Low Income Settlement Water Supply Improvement of the Project which was aimed to identify 1000 house holds of low income settlement to provide individual water supply and also to identify the area of water losses to implement the methods to reduce such losses had shown a slow progress of 62 per cent as at 31 December 2011. Total expenditure incurred for such component was Rs.9,547,998 as at 31 December 2011 and 37 per cent of such expenditure had been incurred for purchasing of office equipment and partitioning purposes.

c) The contract for the supply and laying distribution network in Gothatuwa-Kolonnawa and Mulleriyawa area was awarded on 22 April 2010 and was scheduled to be completed by 30 June 2012. However, the contract had been completed in September 2013 only.