

Greater Kandy Water Supply Project –Phase I, Stage II - 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 Project expenditure for the year ended 31 December 2011 amounted to Rs. 1,236,478,017 and the cumulative expenditure as at 31 December 2011 amounted to Rs 3,465,715,259. A summary of the 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		Cumulative Expenditure as at 31 December 2011
	31 December		
	2011	2010	Rs.
	Rs.	Rs.	
Land Acquisition	4,486,862	4,283,328	26,557,466
Fixed Assets	(4,052,375)*	11,799	1,216,349
Work-in-progress–GOSL Funds	277,294,808	259,979,920	659,476,526
–JBIC Funds	958,748,722	1,658,141,531	2,778,464,918
	1,236,478,017	1,922,416,578	3,465,715,259

*Fixed assets had been transferred to the Regional office of the NWSDB for future operations and maintenance works.

3. Audit Observations

Following observations are made.

- (a) As per the information provided by the Ministry of Water Supply and Drainage, foreign funds amounting Rs.940,679,740 had been received as at 31 December 2011 to implement the Project activities. However, as per the financial statements of the Project, it was shown as Rs.701,116,613. The differences of Rs.239,563,127 had not been reconciled and adjusted in the accounts accordingly.
- (b) Retention money amounting to Rs.120,376,444 retained from the contract payments had not been brought to accounts.
- (c) Work-in-progress Account and Foreign Loan Account had been understated by Rs.221,235,144 due to erroneous accounting entries made for the recovery of mobilization advance during the years 2010 and 2011.

- (d) According to Circular No. 5 of 26 July 2010 of the Department of Management Audit of the General Treasury, the Internal Auditor is to assist the Accounting Officer to fulfill their responsibility on completion of development projects in time and in good manner, by using the public resources provided effectively, efficiently and economically. However, transactions of the Project had not been subjected to internal audit of the NWS&DB.
- (e) The Project had recruited 35 employees in 2011 in excess of approved cadre without obtaining approval from the Department of Management Services of the General Treasury. The additional amount spent by the Project for the excess staff in 2011 was Rs.11,479,070.

4. Financial and Physical Performance

4.1 Utilization of 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 Loan agreement		Budgetary provision for the year 2011	Funds utilized during the year 2011	Funds utilized up to 31 December 2011	
	JP.Yen(Mn)	Rs(Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)	%
JBIC	3,447	3,077.67	942.52	940.68	2,884.92	94
GOSL	1,217	1,086.61	250.00	250.00	630.56	58
Total	<u>4,664</u>	<u>4,164.28</u>	<u>1,192.52</u>	<u>1,190.68*</u>	<u>3,515.48*</u>	<u>84</u>

(Exchange rate JP.Yen 1 = SLRs 1.12)

- * This amount differ from the amounts shown in paragraph 4.1 of this report due to exclusion of net working capital of Rs.44 million and Rs.732 million funds utilized for the year under review and the funds utilized up to 31 December 2011 respectively.

4.2 Physical Performance

Even though the Project was scheduled to be completed by 30 September 2012 the progress report rendered for the audit indicated that the overall physical progress of the Project at the end of the year 2011 was 89.52 percent as against the expected target of 93.78 percent as at that date.

Details of the financial and physical progress of the activities of the Project as at 31 December 2011 is shown below.

	Activity	Target date of completion	Progress as at 31 December 2011	
			Financial %	Physical %
i	Advance Package 1 – Supplying and Laying Pipe Line and Construction of Staff Quarters	16.02.2010	95.84	100.00
ii	Package 2 - Backwash Recovery	25.02.2010	75.08	91.04
iii	Package 4 - Non Revenue Water Reduction	24.03.2010	78.92	95.68
Iv	Package 9 - Purchase of Vehicles	June 2008	100.00	100.00
v	Package 10 – National Competitive Bidding Package (RFA) (FA)	07.09.2011	64.81 80.62	93.56
vi	Package 11 - Construction of Staff Quarters	28.02.2011	51.44	87.56
vii	Package 12 - Construction of Service Reservoirs(FA) (RFA)	05.05.2012	55.42 83.62	93.56
viii	Package 13 - Consultancy Package(RFA) (FA)	31.12.2011	77.40 61.39	96.10
ix	Package 14 - Construction of Clear Water Reservoir.	01.02.2012	4.57	50.53
X	Package 15 - Construction of Flocculator and Sedimentation Tank	16.07.2012	23.01	43.79
Xi	Package 16 - Construction of Sedimentation and Flocculator.Basin	Tender Documents is in progress	-	-