

## **Badulla, Haliela and Ella Integrated Water Supply Project - 2013**

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The audit of financial statements of the Badulla, Haliela and Ella Integrated Water Supply Project for the first accounting period from 01 March to 31 December 2013 was carried out under my direction in pursuance of the provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. This Project is implemented under the Credit Agreements No.AP086903XX dated on 01 July 2013 and No. 3294 dated 06 November 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Export/ Import Bank of the United States and the Hatton National Bank of Sri Lanka.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Credit Agreements of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning and Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to provide safe drinking water by constructing and expanding water supply facility in the Badulla District of Uva Province, and thereby contribute to improving living standard and reducing poverty in the area. As per the Credit Agreements, the total estimated cost of the Project was US\$ 91.37 million equivalent to Rs. 11,809.51 million and out of that US\$ 64.89 million equivalent to Rs. 8,356.53 million or 70.77 per cent was agreed to be provided by the Export/ Import Bank of the United States and US\$ 9.26 million equivalent to Rs.1,213.98 million or 10.28 per cent was agreed to be provided by the Hatton National Bank of Sri Lanka. The balance sum of US\$ 17.22 million equivalent to Rs. 2,239 million or 18.95 per cent was agreed to be provided by the Government of Sri Lanka. The activities of the Project had been commenced in December 2012, before entering into the Credit Agreements and scheduled to be completed by 31 August 2017.

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit

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evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agencies, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loans, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Credit Agreements.
- (e) Whether the funds, materials and equipments supplied under the Loans had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards and

- (h) Whether the financial covenants laid down in the Credit Agreements had been complied with.

## **1.5 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

### **2.1 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 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the first accounting period from 01 March to 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the financial covenants laid down in the Credit Agreements had been complied with.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Presentation of Financial Statements**

According to the Circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Project for the period ended 31 December 2013 required to be submitted to the Auditor General on or before 31 March 2014 had been submitted only on 07 April 2015.

#### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) The fixed assets procured at a cost of Rs. 476,356 during the period under review by the Regional Support Centre of Uva, out of the proceeds allocated by the Project had been recorded as the assets of an other Project called Augmentation of Mahiyangana Water Supply Project. Further, no evidence had been received to audit that the respective assets were verified at the time of annual physical verification. In addition, other expenses amounting Rs 1.47 million spent during the period under review by the Regional Support Centre of Uva to implement the activities of this Project had also been treated as the expenses of an other Project.

- (b) The advances amounting to Rs. 16.05 million made in January in 2014 for land acquisition purposes had been accounted as the advances made during the period under review. As a result, the balance of the advances outstanding as at 31 December 2013 had been overstated by that amount.

### **3. Financial and Physical Performance**

#### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds up to 31 December 2013 are shown below.

Source	Amount agreed for financing according to the Credit Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized up to 31 December 2013	
	US\$ million	Rs. million		Rs. million	US\$ million
Export/ Import Bank of the United States	64.89	8,356.53	800.00	-	-
Hatton National Bank	9.26	1,213.98	-	9.26	1,213.98
GOSL	17.22	2,239.00	292.70	0.21	26.84
<b>Total</b>	<b><u>91.37</u></b>	<b><u>11,809.51</u></b>	<b><u>1,092.70</u></b>	<b><u>9.47</u></b>	<b><u>1,240.82</u></b>

#### **3.2 Physical Progress**

Eventhough the contract agreement had been signed on 25 December 2012, the operations of the Project had been commenced in March 2014 after entering into the Credit Agreements. Subsequently, the contract agreements were amended on 24 October 2014. According to the progress reports furnished by the Project, no significant physical progress had been reported at the end of the period under review.

#### **3.3 Matters in Contentious Nature**

The following observations are made.

- (a) Action had not been taken to enter into a Subsidiary Loan Agreement between National Water Supply and Drainage Board and Government of Sri Lanka for financing and implementing purposes of the Project eventhough it was requested by the Department of External Resources by the letter dated 07 November 2013.

- (b) The remuneration for the staff of the Project had been computed by the National Water Supply and Drainage Board and 20 per cent of overhead had been charged from the Project even though the Project had recruited adequate staff for its administration works. The overhead expenditure so paid by the Project to the National Water Supply and Drainage Board for the period amounted to Rs. 4.47 million.
  
- (c) According to the financial statements, a sum of Rs.19.05 million had been remitted to the respective Divisional Secretariats by the Project during 2012 and 2013, for land acquisition purposes . However, the ownership of the lands acquired had not been transferred to the National Water Supply and Drainage Board even as at 31 December 2015.