

Jaffna and Kilinochchi Water Supply and Sanitation Project [ADB Loan No; 2710-SRI, 2711-SRI (SF) and AFD Credit Agreement No. CLK 1003-01-J] - 2013

The audit of financial statements of the Jaffna and Kilinochchi Water Supply and Sanitation Project for the year ended 31 December 2013 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 4.05 of Article IV of the Loan Agreement No. 2710-SRI (Ordinary Operations) and Section 4.03 of Article IV of the Loan Agreement No.2711-SRI (SF) (Special Operations) dated 08 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Jaffna and Kilinochchi Water Supply and Sanitation Project, the National Water Supply and Drainage Board (NWS&DB) under then Ministry of Water Supply and Drainage presently, the Ministry of Urban Development and Water Supply and Drainage and the Provincial Irrigation Department through the Northern Provincial Council (NPC) under the Ministry of Local Government and Provincial Council (MLGPC) are the Implementing Agencies of the Project. The objectives of the Project are to improve water supply and sanitation infrastructure for residents living in the Project area and to protect and manage Jaffna Peninsula water resources. The Project shall comprise, improving water supply and sanitation infrastructure, strengthening Jaffna Water Resource Management and construction of Jaffna Regional Office (JRO) to enhance implementation capacity. As per the Loan Agreement, the estimated total cost of the Project is US \$ 164.04 million equivalent to Rs.18,326 million and out of that US \$ 90 million equivalent to Rs.10,055 million or 54.86 per cent was agreed to be financed by the ADB, US \$ 48 million equivalent to Rs. 5,362 million or 29.26 per cent was agreed to be financed by the Agence Francaise de Development (AFD) and the balance of US \$ 26.04 million equivalent to Rs. 2,909 million or 15.88 per cent was agreed to be financed by the Government of Sri Lanka (GOSL).The Iranamadu component of the Project is executed by the Provincial Irrigation Department and the funds allocated thereon by the ADB and GOSL for that was US \$ 13.55 million equivalent to Rs.1,513 million and US \$ 3.17 million equivalent to Rs.354 million respectively. The Project commenced its activities on 15 February 2011 and scheduled to be completed by 14 February 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 Generally Accepted Accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as enable as wide and audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimate made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The audit examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the GOSL and the Lending Agency, 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 Loan etc,
- (c) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements,
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (g) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date,
- (h) Whether the 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 Agreements,

- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreements had been complied with.

3. 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 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the accounting year ended 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 Generally Accepted Accounting Principles.
- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) the initial imprest, withdrawals from and replenishments to the imprest Fund accounts during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements, and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2013 amounted to Rs. 271,120,778 as compared with the expenditure of Rs. 183,593,533 for the preceding year and the cumulative expenditure as at 31 December 2013 amounted to Rs 454,714,311. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is shown below.

Item	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2013
	2013 Rs.	2012 Rs.	Rs.
Civil Works	95,003,555	140,341,560	235,345,115
Environment and Mitigation	-	267,136	267,136
Land Acquisition	2,495,072	-	2,495,072
Motor Vehicles	23,504,399	-	23,504,399
Equipment	-	530,193	530,193
Office Furniture and Equipment	963,613	3,563,422	4,527,035
Consultancy (RSC North)	4,900,000	-	4,900,000
Consultancy (PIECE)	107,669,191	-	107,669,191
Project Administration and Implementation	36,584,948	38,891,222	75,476,170
Total	<u>271,120,778</u>	<u>183,593,533</u>	<u>454,714,311</u>

4.2 Imprest Fund Accounts

According to the financial statements and the information made available, the operations of the Imprest Fund Account for the year ended 31 December 2013 are given below.

ADB Loan No. 2710 -SRI (SF)

	US \$	Rs.
Balance as at 01 January 2013	1,169,380	148,699,264
<u>Add:</u>		
Replenishment	233,802	30,594,144
Foreign Exchange gain	-	3,472,943
	1,403,182	182,766,351
<u>Less:</u>		
Withdrawals	317,925	40,865,811
Balance as at 31 December 2013	<u>1,085,257</u>	<u>141,900,540</u>

ADB Loan No. 2711 -SRI (SF)

	US \$	Rs.
Balance as at 01 January 2013	1,992,521	253,370,569
<u>Add:</u>		
Replenishment	369,147	48,359,298
Foreign Exchange gain	-	6,595,863
	2,361,668	308,325,730
<u>Less:</u>		

Withdrawals	423,427	55,417,998
Balance as at 31 December 2013	<u>1,938,241</u>	<u>252,907,732</u>

5. Accounting Deficiencies

The commitment and interest charges aggregating to Rs.20,114,260 incurred in terms of the Section 2 of Article II of the Loan Agreements had not been brought to accounts of the Project.

6. Financial and Operating Review

6.1 Utilization of Funds

According to the information made available, the financial progress of the Project as at 31 December 2013 is given below.

(US \$ million)

	ADB	AFD	GOSL	TOTAL	
	Special <u>Operations</u>	Ordinary <u>Operations</u>	-----	-----	
Agreed contribution as per Loan agreement	70	20	48	26.04	164.04
Less:- Funds allocated to the Department of Irrigation for construction of Iranamadu Tank	13.55	-	-	3.17	16.72
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Funds allocated for National Water Supply Drainage Board	<u>56.45</u>	<u>20</u>	<u>48</u>	<u>22.87</u>	<u>147.32</u>
Expenditure incurred up to 31 December 2013	<u>1.20</u>	<u>1.13</u>	<u>0.40</u>	<u>0.74</u>	<u>3.48</u>
Utilization of funds as a percentage	2.12	5.65	0.83	3.23	2.36

The following observations are made

- According to the above analysis it was revealed that the financial progress of the Project as at 31 December 2013 was very low.
- Even though a sum of Rs.500,000,000 and Rs.300,000,000 had been allocated for foreign and local expenditure of the Project respectively for the year 2013 in the National Budget, allocation of Rs.150,000,000 had been transferred to other projects, subsequently and only Rs. 56,055,840 had been used out of the local funds allocated.

6.2 Physical Performance

The following observations are made.

- (a) According to the information received the Iranamadu Tank is the main source of water for the Jaffna Kilinochchi Water Supply Project. However, the Project activities could not be implemented as planned due to protests of the community of area to use the Iranamadu Tank as the source for the Project.

- (b) According to the revised procurement plan, the overall scope of the Project had expected to be carried out under 13 packages at a cost of US \$ 91.72 million equivalent Rs. 102,47 million. However, satisfactory progress had not been shown under the works carried out for the procurement of goods, construction work and consultancy etc. According to the explanation of the Project Director, the consultant had been appointed in January 2013 and involved mainly on conceptual design and preparation of bidding documents etc. Therefore, other activities such as designing of distribution network system and construction of water towers etc. were delayed.