

Greater Dambulla Water Supply Project – Stage I - 2014

The audit of financial statements of the Greater Dambulla Water Supply Project – Stage I for the year ended 31 December 2014 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. This Project is implemented under the Credit Agreement dated 17 January 2012 entered into between the Democratic Socialist Republic of Sri Lanka and Export – Import Bank of India.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Agreement 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 objective of the Project is to provide safe drinking water facilities to 300,000 persons living in the areas of Dambulla, Galewela, Sigiriya, Habarana, Palugaswewa, Naula, Palagolla and Kekirawa. The estimated total cost of the Project amounted to US\$ 86.80 million equivalent to Rs.9,593 million and out of that, US\$ 60.69 million equivalent to Rs.6,675.90 million was agreed to be provided by the Export – Import Bank of India and US\$ 17.11 million equivalent to Rs.1,882.10 million was agreed to be provided by the People's Bank. The balance of US\$ 9.00 million equivalent to Rs.1,035.00 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 06 March 2012 and scheduled to be completed by 05 September 2014. Subsequently, the period of the Project had been extended 04 times up to 31 May 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Credit etc.
- (d) Whether the withdrawals under the Credit had been made in accordance with the specifications laid down in the Credit Agreement.
- (e) Whether the funds, materials and equipment supplied under the Credit 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.
- (h) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Credit Agreement 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 year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Credit Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) A motor vehicle and 04 double cabs procured by the Project at a cost of Rs.62.20 million had been accounted under work-in-progress instead of being shown as non-current assets.
- (b) The costs incurred on national conferences held during the year under review and the previous year amounting to Rs.2.37 million and Rs.3.66 million respectively had been directly charged to the contribution received from the Government of Sri Lanka. In addition, Value Added Tax aggregating Rs.417.93 million paid as at 31 December 2014 had also been charged to the contribution of the Government of Sri Lanka.
- (c) Interest on Loan aggregating Rs.137.12 million had been accounted under work-in-progress instead of being shown separately.

2.2.2 Non - Compliance with Laws, Rules and Regulation

According to Section 08 of the Public Contract Act, No.03 of 1987, the contractors who accepted contracts exceeding the value of Rs.5 million are required to be registered under Registrar of Public Contract. Further, within 60 days after awarding the contract, the contract agreements should be registered with the Registrar of Public Contract. However, the contractor who dealt with the activities of the Project had not complied with the above mentioned requirements.

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 during the year under review and up to 31 December 2014 are shown below.

Source	Amount agreed for financing according to the Credit Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
Export-Import Bank of India	60.69	6,675.90	970.00	6.01	784.59	44.50	5,754.97
People's Bank	17.11	1,882.10		1.94	252.94	10.47	1,354.75
GOSL	9.00	1,035.00	83.00	0.59	78.23	3.21	400.90
Total	<u>86.80</u>	<u>9,593.00</u>	<u>1,053.00</u>	<u>8.54</u>	<u>1,115.76</u>	<u>58.18</u>	<u>7,510.62</u>

3.2 Physical Progress

The activities of the Project commenced on 06 March 2012 and scheduled to be completed by 05 September 2014 had shown slow progress of 64.80 per cent as at 31 December 2014, eventhough it was expected to achieve physical progress of 71.10 per cent as at that date. The reasons such as lack of comprehensive plans to implement the activities of the Project, delay of commencement of the works and failures of the contractors in deploying human and physical resources adequately had caused for the slow progress on implementation of activities of the Project.

3.3 Issues on Financial Controls

The following observations are made.

- Transactions of the Project had not been subjected to the audit of the Internal Audit Unit of the National Water Supply and Drainage Board as required by the Management Audit Circular No. 05 of 26 July 2010.
- According to the Financial Regulation 626, financial statements of the foreign funded projects should be prepared based on separate accounting records maintained in accordance with accepted accounting principles by the Project. In contrary to that, single cash book had been maintained to record transactions of 12 donor funded projects including this Project handled by the Project Accounting Division of the National Water Supply and Drainage Board.
- The proceeds of the Loan received from Exim Bank of India and People's Bank aggregating Rs.7,739.44 million had been segregated and shown in the financial statement as a Loan of Rs.1,191.87 million and a Grant of Rs.6,547.57 million of respective agencies. However, no subsidiary agreements had been entered into with respective parties even as at 31 December 2014.