

Secondary Towns and Rural Community Based Water Supply and Sanitation Project -2015

The audit of financial statements of the Secondary Towns and Rural Community Based Water Supply and Sanitation Project for period from 01 January 2015 to 30 November 2015 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 2.09 of Article II of the Project Agreement and the Loan Agreement No.2276 SRI (SF) dated on 06 June 2007 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan 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 objectives of the Project are to provide safe water to 969,000 people and sanitation to 32,572 families living in the rural areas of North Central Province, urban area of Batticaloa, Hambanthota and Polonnaruwa and increases the institutional capacity to provide safe water by strengthening the water sector. Initially, the Asian Development Bank had allocated US\$ 60.29 million equivalent to Rs. 5,803 million under the Loan No 1993 SRI (SF) dated on 18 August 2003 and subsequently a Supplementary Loan facility had been approved to allocate US\$ 39.81 million equivalent to Rs. 4,336 million under the Loan No. 2276 SRI (SF) of 06 June 2007. Eventhough the activities of the Project were scheduled to be completed by 30 June 2010 and extended up to 31 July 2014, the operation of the Project had been continued and financial statements for the period ended 30 November 2015 had been presented for audit.

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 and for such internal control as the management determines as 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 Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan 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 Generally Accepted Accounting Principles.
- (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 Loan Agreement had been complied with.

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the period ended 30 November 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 30 November 2015 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided, and

- (c) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report.

2.2 Non - Compliance with Laws, Rules and Regulations

According to Section 08 of the Public Contract Act, No.03 of 1987, the contractors who accepted contracts for Rs. 5 million or more should register under Registrar of Public Contract. Further, within 60 days after awarding of the tender, the tender agreement should be registered with the Registrar of Public Contract. The contractors who deals with the Project had not taken action to comply with the above mentioned requirements.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing and the utilization of funds during the period under review and up to 30 November 2015 are shown below.

Source	Amount agreed for financing according to Loan Agreement		Funds utilized during the period under review		as at 30 November 2015	
	US\$ million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	48.80	5,323	-	-	48.80	5,490.94
GOSL	41.87	4,568	0.64	87.52	38.24	4,382.63
Total	<u>90.67</u>	<u>9,891</u>	<u>0.64</u>	<u>87.52</u>	<u>87.04</u>	<u>9,873.57</u>

It was observed that the allocation of the funds to carry out the activities of the Project had been made in the Budget Estimate-2015 under the Ministry of City Planning and Water Supply.

3.2 Physical Progress

According to the information received, 04 contracts for the construction of elevated towers, head works, raw water transmissions and treatment plants and supply and laying of distribution pipelines in Hambanthta and Batticaloa town and contraction of strome water drainages in Muttur in Trincomalee had been completed as at 30 November 2015 with delays ranging from 125 days to 710 days.

3.3 Matters in Contentious Nature

Although the construction woks of elevated tower at the premises of Eastern University of Sri Lanka were completed in April 2012, the respective land had not been vested to the National Water Supply and Drainage Board even up to October 2016.

3.4 Issues in Financial Controls

The following observations are made.

- (a) According to the Financial Regulation 133 and Management Audit Circular No.DMA/2010(05) of 26 July 2010, activities of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board during the period under review.

- (b) Fixed Assets shown in the financial statements of the Project had not been physically verified during the year under review in terms of Financial Regulations 756. Further, Fixed Assets Register had not been properly maintained as per the Treasury Circular No 842 dated 19 December 1978.

3.5 Closure of the Activities of the Project

Although the period of the Project had been closed as at 30 November 2015, the Implementing Agency had not taken action to issue instruction to the Project Monitoring Unit to hand over the assets procured by the Project and prepare financial statements for winding up purposes.