

Anuradhapura North Water Supply Project Phase I - 2015

The audit of financial statements of the Anuradhapura North Water Supply Project- Phase I for the year ended 31 December 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 14 of Project Memorandum of the Loan Agreement No.SL-P 110 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency .

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 drinking water and increase water supply coverage by constructing a water supply system in Anuradhapura North area, thereby contributing to improve hygienic status and health condition in the area. As per the Loan Agreement, the estimated total cost of the Project amounted to Japan Yen 6,817 million equivalent to Rs.11,515 million and out of that Japan Yen 5,166 million equivalent to Rs.8,726 million was agreed to be financed by the Japan International Cooperation Agency. The Project commenced its activities in February 2013 and scheduled to be completed by February 2018.

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 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in Loan Agreement.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (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 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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (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) the 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.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiency

Value Added Tax aggregating Rs. 6.61 million paid up to 31 December 2015 had been set off against contribution of the Government of Sri Lanka instead of being shown under the work-in-progress.

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 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	JPY million	Rs. million		Rs. million	JPY million	Rs. million	JPY million
JICA	5,166	8,726	-	91.24	101.52	293.42	347.52
GOSL	1,651	2,789	-	39.97	44.37	106.64	125.44
Total	<u>6,817</u>	<u>11,515</u>	=	<u>131.21</u>	<u>145.89</u>	<u>400.06</u>	<u>472.96</u>

The following observations are made in this regard.

- (a) Although no funds had been allocated in the Budget Estimate for the year 2015, a sum of Rs. 145.89 million had been spent during the year under review to implement the activities of the Project.
- (b) As per the paragraph 42 of the Expenditure Schedule of the Project Memorandum, it was agreed to release Japan Yen 791 million upto 31 December 2015. However, actual utilization of funds by the Project amounted to Japan Yen 293.42 million equivalent to Rs. 347.52 million representing 37.09 per cent of the allocated amount. Further, commitment charges amounting to Rs. 13.28 million had been charged by the Lending Agency up to 31 December 2015 on unutilized allocations.

3.2 Physical Progress

According to the progress reports furnished by the Project, the overall physical and financial progress at the end of the year under review was 21.59 per cent and 4.42 per cent respectively. A comprehensive detailed action plan with physical and financial targets in monthly, quarterly and biannually etc. and fixing responsibilities for the implementing parties to achieve the objectives of the Project within specific period had not been prepared and implemented even after lapse of 03 years from the date of commencement of the activities of the Project. As a result, no civil construction works on intakes, water treatment plants, elevated water tanks and laying of transmission and distribution lines etc, had been commenced even as at 31 July 2016.

3.3 Contract Administration

The following observations are made.

- (a) According to the paragraph 2.2 of Implementation Schedule of the Project Memorandum, procurement of suitable service provider for the consultancy services of the Project was scheduled to be completed before September 2013. However, the contract for consultancy services had been awarded only on 13 June 2014 with delay of 09 months. As a result, the detailed designs and preparation of draft bidding

documents for all the contracts expected to be awarded by the Project had been commenced with significant delays.

- (b) The contracts for the construction of intake facility, water treatment plant, water storage and executive quarters were not awarded even as at 31 July 2016, as the approval for the proposed land for Mahakanadarawa reservation had not been granted by the Land Commissioner General's Department. However, a sum of Rs. 2 million had been paid to a resident in the area for the acquisition of a land without considering the assessment of Rs.977,500 made thereon by the Government Valuer.
- (c) According to the Implementation Schedule of the Project Memorandum, the contracts for supply and laying of High Density Poly Ethylene Transmission Main, Sub Main and Distribution Main were initially planned to commence on 30 June 2015. However, the respective contracts had not been awarded upto 31 July 2016. Further, the contracts for supply and installation of distribution system in Issinbessagala, Ethakada and Rambewa Distribution Zones were scheduled to be awarded before 31 May 2015. However, the Project had not taken action to award the contracts even up to 31 July 2016.