

Greater Ratnapura Water Supply Project - Phase 1 - 2015

The audit of financial statements of the Greater Ratnapura 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. This Project is implemented as per Credit Agreement No SRL - 038412 dated 15 January 2013 entered into between the Democratic Socialist Republic of Sri Lanka and Banco Bilbao Vizcaya Argentaria, S.A. (BBVA).

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 by constructing and expanding water supply facilities in the Sabaragamuwa Province and thereby contribute to improving living standard and reducing poverty in the area. As per the Credit Agreement, the estimated total cost of the Project amounted to Euro 26.65 million equivalent to Rs. 4,493.66 million. Out of that Euro 21.93 million equivalent to Rs. 3,698.06 million was agreed to be provided by the Banco Bilbao Vizcaya Argentaria Bank and Euro 3.87 million equivalent to Rs.652.60 million was agreed to be provided by Development Finance Corporation of Ceylon Bank. The balance amount of Euro 0.85 million equivalent to Rs.143.00 million was expected to be contributed by the Government of Sri Lanka. The Project commenced its activities on 24 July 2013 and scheduled to be completed by 24 July 2015. Subsequently, the period of the Project had been extended up to 29 February 2016.

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 Credit 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 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 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 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 Project had procured 03 motor vehicles at a cost of Rs. 24.42 million in April 2014 had been continuously shown under the work-in-progress. Further, office building and office quarters constructed at a cost of Rs.264.67 million had been continuously shown under work-in-progress, eventhough construction works completed and utilized in 2015.

2.2.2 Non - Compliance with Laws, Rules and Regulations

According to the Financial Regulation 626, the financial statements of the Project should be prepared based on the separate accounting records of the Project maintained in accordance with accepted accounting principles. However, single cash book for 12 projects had been maintained by the Project Accounting Division of the National Water Supply and Drainage Board without maintaining separate cash book for this Project.

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 Credit Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized during the year under review		As at 31 December 2015	
	Euro million	Rs. million		Euro million	Rs. million	Euro million	Rs. million
BBVA	21.93	3,698.06	-	8.63	1,300.44	21.93	3,557.46
DFCC	3.87	652.60	-	-	-	3.87	658.76
GOSL	0.85	143.00	-	0.48	73.38	0.95	152.76
Total	<u>26.65</u>	<u>4,493.66</u>	=	<u>9.11</u>	<u>1,373.82</u>	<u>26.75</u>	<u>4,368.98</u>

3.2 Physical Progress

The following observations are made.

- (a) According to the progress report furnished for audit, the activities of the contract for civil construction works had been completed on 02 October 2015 with delays over 02 months. However, after commissioning of the water distribution activities a time extension had been granted up to 29 February 2016 to complete the remaining works of lower bank protection of intake, rehabilitation of roads and landscaping of water treatment plant etc.
- (b) Eventhough the Project had completed the construction works of pre-fabricated 02 water tanks, 02 water treatment plants and a pumping station with a capacity of 13,000 cubic metres at Pompakale, the distribution capacity was limited to 359 new connections even upto 31 December 2016, due to delays in laying of new distribution line for new connection. Therefore, the main objective of the Project to provide safe drinking water by constructing and expanding water supply facilities in the Sabaragamuwa Province had not been achieved as expected.

3.3 Contract Administration

The following observations are made.

- (a) According to the feasibility study of the Project, it was planned to construct a concrete water tank at Pompakele with a capacity of 2,500 cubic metres. However, with the concurrence of the contractor, 02 water tanks had been constructed by using pre-fabricated materials and allocation based on the estimated cost for the concrete tank amounting to Rs. 280.09 million had been released to the contractor without considering the actual cost of the pre-fabricated water tanks. Further, according to the warranty certificate, the average effective life time of the pre-fabricated water tank was only 20 years. However, average effective life time of the concrete water tanks made by the National Water Supply and Drainage Board consisted with 50 years.
- (b) According to the Interim Payment Certificate, the cost for square feet for the office building and office quarters constructed by the Project in Ratnapura town area amounted to Rs.8,753 and Rs.16,788 per square feet respectively. According to the information obtained from the State Engineering Corporation and the Department of Building, the costs for constructing similar type of office building and official quarters were remained at Rs.5,435 and Rs.4,899 per square feet respectively. Therefore, it was calculated that a sum of Rs.160.86 million had been overpaid on the respective construction works.

3.4 Matters in Contentious Nature

The ownership of the land of the Water Treatment Plant had not been transferred to the National Water Supply and Drainage Board even up to 31 January 2017.