

Greater Kandy Water Supply Project -Phase I, Stage II - 2015

The audit of financial statements of the Greater Kandy Water Supply Project -Phase I, Stage II 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 Loan Agreement No. SL- P 90 dated 28 March 2007 entered into between the Democratic Socialist Republic of Sri Lanka and then Japan Bank for International Cooperation, presently known as Japan International Cooperation Agency along with Section 4.03 of Article IV of the Subsidiary Loan Agreement No.SL-P90 dated 03 September 2008 entered into between the National Water Supply and Drainage Board and Democratic Socialist Republic of Sri Lanka.

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 objective of the Project is to improve the water supply service of the Greater Kandy and suburb areas. As per the Project cost estimate, the estimated total cost of the Project amounted to Japan Yen 4,664 million equivalent to Rs. 4,164 million. Subsequently, the cost estimate had been revised up to JapanYen 5,497 million equivalent to Rs.7,146 million due to additional works and price fluctuations. Out of that, JapanYen 4,634 million equivalent to Rs.6,024 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 30 March 2007 and scheduled to be completed by 30 September 2012. Subsequently, period of the Project had been extended twice upto 20 June 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 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 submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.
- (h) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (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 Generally Accepted Accounting Principles,
- (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 Presentation of Financial Statements

According to the Circular No. MOFP/ ERD/ 2007/2 of 07 August 2007 Ministry of Finance and Planning, the financial statements of the year ended 31 December 2015 are required to be submitted to the Auditor General on or before 31 March 2016. However, the financial statements of the Project had been submitted only on 08 August 2016.

2.2.2 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) A sum of Rs. 12.79 million spent by the Project on acquisition in lands for other Project called Kandy – Pathadumbara Water Supply Project had been capiterlized under this Project. Further, salaries amounting to Rs. 12.70 million spent by the Project for other Project called Strategic City Development Project had been treated as the cost of this Project instead of being treated as receivable.
- (b) Cost of remuneration and other allowances of the Project amounting to Rs. 58.74 million had been erroneously shown as a payable balance to the Water Supply and Drainage Board.

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 according to the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	JPY million	Rs. million		JPY million	Rs. million	JPY million	Rs. million
JICA	4,634	6,024	Nil	297.45	324.23	4,269.77	5,635.07
GOSL	863	1,122	Nil	61.72	67.28	903.56	1,108.22
	<u>5,497</u>	<u>7,146</u>	<u>Nil</u>	<u>359.17</u>	<u>391.51</u>	<u>5,173.33</u>	<u>6,743.29</u>

As per the information furnished by the Project, proceeds of the Loan amounting to Rs. 324.23 million and the contribution of the Government of Sri Lanka amounting to Rs. 67.28 million had been utilized during the year under review even though no allocations had been made under the Budget Estimate for 2015 under the Ministry of City Planning and Water Supply.

3.2 Physical Progress

According to the progress reports prepared by the Project, the main activities such as construction of sedimentation tanks and pump houses and procurements of other related equipments etc had been substantially completed even as at 31 December 2014 even though the operations of the Project Monitoring Unit had remained continued upto 31 December 2015.

3.3 Matters in Contentious Nature

The construction works of Flocculation Unit and Sedimentation Tank of Water Treatment Plant at Katugastota had been completed at a cost of Rs. 293.51 million and the completion reports thereon had been issued on 30 January 2015. However, an additional sum of Rs. 45.01 million had been received on 16 June 2015 from the Lending Agency, on the request made by the Project to complete several other works. Out of that a sum of Rs. 6.5 million had only been utilized for intended purposes.

3.4 Extraneous Expenses

It was revealed in audit that the general administration and other indirect expenses aggregating Rs. 55.14 million which were not eligible to claim as per Schedule 2 of the Loan Agreement had been claimed to settle the bills submitted by the contractor.