

Badulla, Haliela and Ella Integrated Water Supply Project - 2016

The audit of financial statements of the Badulla, Haliela and Ella Integrated Water Supply Project for the year ended 31 December 2016 was carried out under my direction in pursuance of the provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. This Project is implemented under the Credit Agreements No. AP086903XX dated on 01 July 2013 and No. 3294 dated 06 November 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Export/ Import Bank of the United States and the Hatton National Bank of Sri Lanka.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Agreements 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 by constructing and expanding water supply facility in Badulla District of Uva Province and thereby contribute to improving living standard and reducing poverty in the area. As per the Credit Agreements, the total estimated cost of the Project amounted to US\$ 91.37 million equivalent to Rs. 11,809.51 million and out of that US\$ 64.89 million equivalent to Rs. 8,356.53 million was agreed to be provided by the Export/ Import Bank of the United States and US\$ 9.26 million equivalent to Rs. 1,213.98 million was agreed to be provided by the Hatton National Bank of Sri Lanka. The balance sum of US\$ 17.22 million equivalent to Rs. 2,239 million was agreed to be contributed by the Government of Sri Lanka. The activities of the Project had been commenced in December 2012 and scheduled to be completed by 31 August 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 identification of the purchases made out of the Loans etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Credit Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans 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 Agreements 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,

Export/ Import Bank of the United States	64.89	8,356.53	1,800	26.21	3,825.77	48.65	6,800.41
Hatton National Bank	9.26	1,213.98	-	-	-	9.26	1,213.98
GOSL	17.22	2,239.00	210	1.97	211.06	3.64	402.54
Total	<u>91.37</u>	<u>11,809.51</u>	<u>2,010</u>	<u>28.18</u>	<u>4,036.83</u>	<u>61.55</u>	<u>8,416.93</u>

The following observations are made.

- (a) Out of total allocations of US\$ 91.37 million, a sum of US\$ 61.55 million equivalent to 67 per cent had only been utilized as at 31 December 2016, after elapse of 03 years from the commencement of the activities of the Project.
- (b) It is observed that the possibility of completion of the activities of the Project as enable to deliver intended benefits to the people living in the areas within the remaining period of 08 months is remained in doubt, due to lack of proper Action Plan to ensure the achievement of the objectives of the Project using allocated resources.

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 85 per cent and 69.89 per cent respectively. The construction works of pumping stations, service reservoir dams and intakes etc, scheduled to be completed by December 2015 had been substantially completed as at 31 December 2016. However, the installation of electro mechanical equipment, suppling and laying of transmission lines, trunk main lines and distri bution lines had not been completed even as at 31 December 2016, due to lack of proper planning of respective works.

3.3 Matters in Contentious Nature

The following observations are made.

- (a) Eventhough the proceeds of the Loan aggregating Rs. 8,013.21 million had been segregated and shown in the financial statements as a Loan of Rs. 1,201.98 million and a Grant of Rs. 6,811.23 million from Government of Sri Lanka, there was no Subsidiary Loan Agreement entered into with the Government of Sri Lanka by the Nationl Water Supply and Drainage Board relating to the financial arrangements made under the Credit Agreement.
- (b) The Report on Environmental Impacts on implementing the activities of the Project required to be prepared in terms of the Section No. 9.02 (J) of the Credit Agreement had not been prepared by the Project.