

Kandy City Wastewater Management Project - 2016

The audit of financial statements of the Kandy City Wastewater Management Project for the year ended 31 December 2016 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 the Loan Agreement No. SL-P 99 dated on 26 March 2010 entered in to between Democratic Socialist Republic of Sri Lanka and then Japan Bank of International Cooperation presently known as 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 is to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment, and disposal of wastewater in Kandy City, including rehabilitation of sanitation facilities in densely populated areas and thereby enhance the standard of living, health, and well-being of the people in the area. The estimated total cost of the Project amounted to Japan Yen 17,278 million equivalent to Rs.21,982 million and out of that Japan Yen 14,087 million equivalent to Rs.17,922 million was agreed to be provided by the Japan International Cooperation Agency. The Project commenced its activities on 20 September 2011 and scheduled to be completed by September 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 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 the Loan Agreement.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards,
- (i) Whether the 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.

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 year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 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 Non - Compliance with Laws, Rules and Regulations

According to the Section 8 of the Public Contract Act, No. 03 of 1987, contractors who accepted contracts valued at Rs. 5 million or more should be registered under Registrar of Public Contract and the contract agreements should be registered within 60 days after the awarding of the contract. It was observed that 04 contractors who entered in to contract agreements with the Project had not complied with the above mentioned requirements.

2.3 Un-reconciled Balances

According to the financial statements of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2016 amounted to Rs.3,251.09 million. However, according to the financial statements of the Project it was shown as Rs.2,586.95 million. The difference of Rs.664.14 million had not been reconciled.

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 2016 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			
				during the year under review		as at 31 December 2016	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	14,087	17,922	4,187	747.61	1,017.60	2,118.51	2,725.58
GOSL	3,191	4,060	144	-	94.38	-	393.27
Total	<u>17,278</u>	<u>21,982</u>	<u>4,331</u>	<u>747.61</u>	<u>1,111.98</u>	<u>2,118.51</u>	<u>3,118.85</u>

It was observed the Project had not prepared a comprehensive plan to ensure the achievement of the objectives of the Project using allocated resources within scheduled time highlighting financial and physical targets with covering entire period of the Project. As a result, Japan Yen 2,118.51 million equivalent to Rs.2,725.58 million representing 15 per cent, out of the total amount of the Loan of Japan Yen 14,087 million equivalent to Rs.17,922 million had only been utilized as at 31 December 2016 after lapse of 05 years from the date of commencement of the activities of the Project. In addition, out of the total allocation amounting to Rs.4,187 million made in the Budget Estimate for the year 2016, only Rs.1,017.60 million equivalent to 24 per cent had been utilized during the year under review.

3.2 Physical Progress

According to the progress report prepared by the Project, the overall physical and financial progress at the end of the year under review was remained at 27.71 per cent and 16.26 per cent respectively. The civil construction works of the Project estimated at Japan Yen 12,636 million equivalent of Rs.16,077 million had been divided into 04 major packages and out of that, the civil construction works under 02 contract packages had shown slow progress of 20 per cent and 33 per cent on physical works as at 31 December 2016 after lapse of 47 per cent and 60 per cent of the period of respective contracts. Eventhough the contracts had been awarded under other 02 packages during the year under review, the construction works under the respective contracts had not been commenced even as at 2016.

3.3 Contract Administration

As per the contract agreement for the Design and Construction of Waste Water Treatment Plant, Main Pump Station, Treated Effluent Disposal System, Sludge Drying Beds and Supply of Operation and Maintenance Equipment the respective preliminary report and detailed design of the Project are required to be completed within 10 months from the date of the contract awarded. Eventhough a sum of Rs.80 million had been paid on 31 December 2015 for designing works the preliminary detailed designs were not completed even as at 31 December 2016.

3.4 Issues on Financial Control

The following observations are made.

- (a) The Board of Surveys on property, plant and equipment of the Project procured at Rs.16,061 million had not been carried out during the year under review, as required by the Financial Regulation No.756.

- (b) The transactions of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board, as per the Financial Regulation 134 (3) and Management Audit Circular No. 05 of 26 July 2010.