

Anuradhapura North Water Supply Project Phase I - 2017

The audit of financial statements of the Anuradhapura North Water Supply Project for the year ended 31 December 2017 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 between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency (JICA).

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 provide safe drinking water and increase water supply coverage by constructing a water supply system in Anuradhapura North area, thereby contributing to improving hygienic status and health condition in the area. As per the Loan Agreement, the estimated total cost of the Project was 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. Subsequently, the period of the Project had been extended up to 30 April 2020.

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 describe in paragraph of 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 2017 and the financial statements give a true and fair view of the state

of affairs of the Project as at 31 December 2017 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 Comments on Financial Statements

2.2.1 Presentation of the Financial Statements

The financial statements of the year ended 31 December 2017 required to be submitted to the Auditor General on or before 31 March 2018, as required by the Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning had been submitted for audit only on 10 September 2018.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The Value Added Tax aggregating Rs.20.19 million paid had been set off against the proceeds of contribution received from the Government of Sri Lanka instead of being treated under the value of work-in progress.
- (b) The provisions gratuity had not been made in the financial statements for the year ended 31 December 2017 for the staff members who had completed a service of over 5 years in the Project in terms of the Gratuity Act, No.12 of 1983.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgeting and the utilization of funds for the year under review and cumulative fund utilization as at 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	JPY million	Rs. million		Rs. million	During the year under review		As at 31 December 2017
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	5,166	8,726	237.21	166.89	226.90	536.35	673.34
GOSL	1,651	2,789	62.05	46.16	62.76	181.94	227.24
Total	6,817	11,515	299.26	213.05	289.66	718.29	900.58

According to the above information, out of the total allocation of Japan Yen 5166 million equivalent to Rs.8,726 million made by the Lending Agency, only a sum of Japan Yen 536.35 million equivalent to Rs.673.34 million representing 7.71 per cent of the allocation had been utilized as at 31 December 2017 after lapse of 04 years and 10 months from the date of commencement of the activities of the Project, due to delays in awarding of contracts.

3.2 Physical Progress

According to the progress reports of the Project, the activities of the Project had shown slow progress of 12.23 per cent and 8.66 per cent respectively end of the year under review. Further, it showed a marginal increase of physical and financial progress of 19.87 per cent and 21.97 per cent respectively as at 30 October 2018.

3.3 Contract Administration

The following observations are made.

- (a) Eventhough the activities on improvement of intake facility, construction of water treatment plant, ground sumps, elevator tanks, office buildings and other mechanical and electrical works etc, were scheduled to be completed by February 2018, the contracts thereon had been awarded only on 23 March 2018, due to the delays in preparation of designs and bidding documents and evaluation thereon, time taken for bid evaluation and obtaining of approval of Cabinet of Ministers etc. According to the daily progress reports of the Project and the field audit inspections carried out at the construction sites it was revealed that the contractor had not deployed labour force adequately to complete the works timely manner. Further, it was observed that the construction works of water tank, ground reservoir and office quarters etc had not been commenced even up to 31 December 2018, due to disputes in acquisition of lands.
- (b) The contract for supply and laying of High Density Poly Ethilene Pipes, Ductile Iron Pipes transmission main and distribution main at Madawachchiya and Rabawa area was awarded in November 2017 after lapse of 04 years and 09 months from the date of commencement of the activities of the Project. However, the pipe laying

works of 4627.18 metres only had been completed as at 30 September 2018, out of the 252,353 metres of respective pipe laying works required to be completed as at 31 December 2019.

- (c) It was observed that the contract for laying of Un Plasticized Poly Vinyl pipes and supply and laying of Ductile Iron pipes and Galvanized Iron pipes at Issinbessagala area had been awarded in October 2016, after lapse of 03 years and 09 months from the date of commencement of the activities of the Project. However, only 101,073.46 metres of works had been completed on 30 September 2018, out of the 112,311 metres of pipe laying works to be completed by 30 September 2018.

3.4 Extraneous Activities.

The Project had procured 11 water bowsers, 02 motor cars and 02 motor bicycles at a cost of Rs 129.05million in 2014 and out of a water bower had been handed over to the Regional Office of Kegalle of the National Water Supply and Drainage Board whilst handing over of motor cars and motor bicycles to the Anuradhapura Regional Support Service Office of the National Water Supply and Drainage Board. However, the Project had taken action to outsource the transport services and a sum of Rs.12.46 million had been spent thereon as at 31 December 2017.

3.5 Matters in Contentious Nature

The following observations are made.

- (a) Although approved cadre of the Project consisted with 42 positions, vacancies of 17 cadre positions including 04 Civil and Mechanical Engineers, 04 Assistant Engineers and a Project Accountant had not been filled over 05 years as at 30 October 2018.
- (b) As per the paragraph 15 of the Memorandum of Understanding signed by the National Water Supply and Drainage Board with the Department of Irrigation on 07 August 2012, a sum of Rs.300 million was agreed to be paid to the Department of Irrigation, out of the contribution received from the Government of Sri Lanka to carry out of the rehabilitation works of main and subsystems of Mahakanadara Tank. However, no any action had been taken by the National Water Supply and Drainage Board to remit the amount and complete the respective works even as at 30 October 2018.