

## **Dry Zone Urban Water and Sanitation Project - 2018**

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The audit of financial statements of the Dry Zone Urban Water and Sanitation Project for the year ended 31 December 2018 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 2.09 of Article II of the Project Agreement No. 2477 SRI (SF) of 29 June 2009 and Grant Agreements Nos. 0129/0130 SRI (SF) of 29 June 2009 and 2977-SRI(SF) of 13 February 2013 entered between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comment and observation which consider should be report to parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan and Grant Agreements of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of City Planning Water Supply and Higher Education is the Executing Agency and National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to improve physical well-being of the urban population in Mannar, Vaunia, Puttalam districts. As per the Loan and Grant Agreements, the total cost of the Project amounted to US\$ 163.33 million equivalent to Rs. 19,165 million and out of that US\$ 99.78 million equivalent to Rs. 11,809 million was agreed to be provided as a Loan and US\$ 23.22 million equivalent to Rs. 2,649 million was agreed to be provided as a Grant by the Asian Development Bank. The Netherland Trust Fund (NTF) had also agreed through Asian Development Bank to make a Grant of US\$ 2 million equivalent to Rs.228 million under the Water Financing Partnership Facility and balance of US\$ 38.33 million equivalent to Rs. 4,479 million was required to be contributed by the Government of Sri Lanka. The Project commenced its activities on 13 November 2009 and scheduled to be completed by 31 December 2016. However, the completion date of the activities of the Project had been extended up to 31 December 2018.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the table 02 of my report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

### **1.4 Basis for Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Accounting Deficiencies

	<b>Accounting Deficiency</b>	<b>Rs. million</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
(a)	Value added Tax paid up to 31 December 2018 had been set off against the Contribution received from the Government of Sri Lanka.	135.13	Understatement of the contribution of Government.	VAT paid can set off against Government fund.	The total contribution from the Government of Sri Lanka is required to be shown in the financial statement.
(b)	Interest charges recovered by Lending Agency up to 31 December 2018 had not been brought to the financial statements of the Project.	404.10	-Do-.	It is treated as a cost of Ministry of Finance, Therefore, not brought to the account.	The disbursement at the end of the year under review need to be shown in the financial statement.

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Project

The Project had implemented several water supply and sanitation activities in the Northern and North Western Provinces in order to improve physical well-being of the urban population under the components of the development of water and sanitation infrastructure and strengthen of water sector institutions North and North Western regions.

Activity	Physical performance as at 31 December 2018		Audit Issue	Impact	Auditor's Recommendation
	Expected	Achieved			
	Units	Units			
<b>Component-01 :Development of water and sanitation infrastructure</b>					
Supply and laying of pipes, fittings and valves for transmission main and distribution system					
• Laying of transmission lines in Vavunia	24 km	19 km	It was observed that low quality pipes had been supplied in 2016.	Possible extension of time to replace the defected pipes.	Need to improve the quality assurance mechanism.
• Laying of transmission lines from Eluthoor to Pesalai in Mannar	16 km	Nil	Contract awarded only on 18 September 2018 and expected to be completed on December 2018.	Related costs would be increased, due to delays in completion.	Prompt action need to be taken to complete the works.
• Laying of distribution lines from Chillaw to Puttlam	48.9 km	Nil	-Do-	Possible delays in completion of works beyond the period of the Project.	-Do-.
<b>Component 2. Strengthen of water sector institutions North and North Western regions</b>					
Supply and installation of solar panel and CCTV system	02 Units	Nil	-Do -	-Do -	-Do -

### 3.2 Contract Administration

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
(a) The contract of supplying and laying of effluent outfall pipe line from Waste Water Treatment Plant to PeruAru Reservoir in Vauniya district had been awarded in April 2017 and scheduled to be completed in 18 January 2018. Although the Project had granted time extension twice up to 25 November 2018, the respective works were not completed as at 31 December 2018.	The works will remain uncompleted even at the end of the period of the Project.	The works under the respective contract had been completed in 2019. However, access road had not been completed.	The reasons for delays is required to be investigated and responsible parties to be identified.
(b) The contract for construction of water transmission and distribution system awarded in 2013 at a cost of Rs.598.93 million had remained incomplete as at 31 December 2018 even after extending of the period of contract in 06 times. The contractor had continued works even after 31 December 2018 without being approved to extend the contract period. It was further observed that the contractor had supplied pipes with inferior quality.	The ultimate objectives of the Project would not be achieved.	The contractor had allowed to continue the works till end of May 2019.	The reasons for the delays in activities of the Project is required to be investigated.
(c) The Project had awarded 07 new contracts in September and November 2018 at a total cost of Rs.313.94 million and no physical progress thereon had been reported to audit. Out of that the contract for supply and laying pipes for distribution system in Mannar had been awarded on 27 November 2018 and agreed to complete in February 2019, without considering the date of completion of the activities of the Project as at 31 December 2018.	Possibility in incur additional cost.	This additional extend of pipe laying was requested by the Member of Parliament and Provincial council.	Need to complete the works within the period of the Project.

### 3.3 Extraneous Activities

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
The computer printers procured by the Project during the year under review at a cost of Rs 1.2 million had been handed over to the office of National Water Supply and Drainage Board in Kelaniya which was not involved to implement the activities of the Project.	Misappropriation of funds allocated.	Not commented.	The actual needs of the Project should be identified.

### 3.4 Idle Assets

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
It was observed that 03 acres land adjoining to the existing treatment plant in Puttlam acquired by the Project for the purpose of construction of ground reservoirs and pump house had remained idle for over 02 years.	Possibility to misuse of the land.	Planned to be used for rehabilitation of existing treatment plant.	The Project should be taken action to use the acquired land for meaningful purposes.