

Water Supply and Sanitation Improvement Project -2018

The audit of financial statements of the Water Supply and Sanitation Improvement 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 the Schedule II, Section II (C) (3) of the Financing Agreement No. 5685 – LK dated 06 November 2015 and Article 4.0 (b) of the General Conditions of the Credit and Grants of the International Development Association dated 31 July 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association . My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement of the Project , the Ministry of City Planning and Water Supply and Higher Education is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are to increase access to piped water services and improved sanitation in selected districts and to strengthen the capacity of associated institutions. As per the Financing Agreement, the estimated total cost of the Project was US\$ 183.90 million equivalent to Rs.27,590 million and out of that US\$ 165 million equivalent to Rs.24,750 million was agreed to be financed by International Development Association. The balance amount of Rs.2,840 million is expected to be financed by the Government of Sri Lanka and through Community contribution. The Project had commenced its activities on 07 December 2015 and scheduled to be completed by 31 December 2020.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2 of my report, the 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 of financial statements that give a true and fair view in accordance with Generally Accepted Accounting principles, and for such internal control as management determines as necessary to enable the preparation of financial statements that are free from material misstatement, 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 the 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

The following observations are made.

	Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendations
(a)	The interest and service charges recovered during the year under review by the Lending Agency, required to be accounted under the Project as per the Section 2.04 and Section 2.05 of the Financing Agreement had not been brought to the Account.	199.17	Understatement of contribution of the Government.	Necessary adjustment will be done in 2019.	Action should be taken to rectify the error to reflect the total cost of the Project.
(b)	The proceed of the Loan disbursed during the last quarter of the year under review had been erroneously treated as the advances received from the Lending Agency.	1,670.31	Understatement of the balance of the Loan.	Correction entry will be passed in 2019.	Action should be taken to avoid such an error in future years.
(c)	The Development cost incurred under the rural and estate water supply schemes, rehabilitation water supply schemes and urban sanitation schemes etc had been erroneously identified as the development cost on rural and estate sanitation programs implemented by the Project.	97.67	Overstatement of the development expenditure on for sanitation infrastructure.	Action will be taken to rectify in 2019.	Need to strengthen the internal control system to classify the expenditure of the Project.

2.2 Un- reconciled Balances

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The cost of computers and equipment, office equipment and furniture and fittings in Kegalle, Mulathivu and Monaragala Districts Support	The existence and valuation of the assets was not confirmed.	Action will be taken to rectify in 2019.	Need of timely reconciliation of balances with corresponding records..

Units aggregating Rs.4.72 million shown in the Register of Fixed Assets was not agreed with the corresponding amount of Rs. 5.27 million shown in the financial statements.

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| (b) The civil works certified as at 31 December 2018 amounting to Rs.1.49 million and Rs.18.82 million under the Rural Water Supply Scheme and Septage Treatment Plant respectively shown in the records maintained by the District Support Unit of the Project in Kilinochchi had not been agreed with the corresponding values of civil works certified amounting to Rs.8.31 million and Rs.11.66 million shown in the financial statements of the Project. | -Do -. | The necessary adjustment entries will be made in 2019. | Need to take action the strengthen the controls to reconcile the internal record in periodic manner. |
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3. Physical Performance

3.1 Physical progress of the activities of the Project

The activities of the Project comprised with 04 components namely, rehabilitation and expansion of urban, rural and estate water supply and sanitation schemes, strengthening of the capacity of the Department of National Community Water Supply, building of sector capacity through training and water quality mapping and Project management and administration and implemented such activities in Nuwaraeliya, Kegalle, Kilinochchi, Mullativu, Ratnapura, Badulla and Monaragala districts. The following observations are made.

Activity	Performance As at 31 December 2018		Delays in Days	Impact	Reasons for delays	Auditor's Recommendation
	Expected %	Achieved %				
Rural and Water Supply & Sanitation Schemes						
Nawakadadora Rural Water Supply Scheme	92	43	60	Expected outcome	The reasons such as delays in importation and supply of pipes and fittings, due to cost	The Executing Agency need to take early action to provide concessions to the contractors with the consultation of
Mathurata Wetakepotha Rural Water supply Scheme	100	85	334	will not be reached in timely manner.		
Edinburgh Water supply Scheme	100	45	28			

Rekitipe water Supply scheme	91	91	294
Manthreethenna Rural Water Supply Scheme	100	67	387
Lynsey Lower water Supply Scheme	55	03	251
Anhettigama Rural Water Supply Scheme	100	76	381
Deiyanwala rural water Supply Scheme	100	89	210
Meeyanawita water Supply Scheme	70	18	81
Hakbellawaka Rural Water Supply Scheme	100	65	57
Keerihena water Supply Schme	100	17	92
Theligama Rural water supply Scheme	100	30	322
Ponnagar Parthipuram Water Supply Scheme	73	20	72
Thadduvankoddy water supply Scheme	75	62	205
Malayalapuram Water Supply Scheme	46	34	60
Septage Treatment Plant – Kilinochchi	100	40	420
Puthukudyirruppu water Supply Scheme	100	33	50
Oddusudan Water Supply Scheme	100	78	199
Septage Treatment Plant – Mullathivu	100	31	410
Welipothayaya Rural water Supply Scheme	100	90	207
Madampe Rural water Supply scheme	100	70	86
Dombagaswinna rural Water Supply Scheme	100	72	102
Ambagahayaya Rural water Supply Scheme	100	75	17
Durakanda and Associated rural water supply scheme	100	85	22
Sooriyara rural water supply Scheme	100	84	293
Bellanoya water Supply scheme	80	42	91

escalations on the General currency rates, Treasury as enable curtailment of to complete the overdraft activities of the facilities by Project in timely manner. the local Commercial Banks had caused delays in completion of civil construction works.

Peellekandura rural water supply scheme	73	24	365
Karandugala rural water supply scheme	100	65	182
Ithakattuwa water supply scheme	35	25	22
Mariarawa water supply scheme	100	55	60
Samagipura rural water supply scheme	70	45	170

3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) The water supply scheme of Welipothayaya in Rathnapura district was terminated on 20 June 2018 due to poor performance of the contractor. The contract to complete the balance works was handed over to the other contractor engaged in the construction works in of Kegalle and Rathnapura districts had not been completed even by 31 May 2019, due to failure of supplying pipes.	i) Possibility to increase the cost of the contract. ii) Contractors will retained mobilization advance released over a period of time without utilizing for project activities.	These two contracts were terminated and the second contractor is continuing the works and it can be completed by end of August 2019.	Need to be monitored the works regularly in order to complete within the time frame.
(b) The contract for Edinburg Rural Water Supply Project in Nuwara Eliya district scheduled to be completed on 02 December 2018 had shown a slow physical progress of 45 per cent as at 31 December 2018. Further no any works had been carried out by the contractor since then up to the end of April 2019 and retained mobilization advance amounting to 8.84 million for more than a year.	-Do-	Project Progress is remained at present at 80 per cent. House connection works are going on. Work can be completed by 15th November 2019.	-Do-

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| (c) The contract for construction works of septage Treatment Plants at Kilinochchi and Mulathivu expected to be completed within 09 months and 06 months period respectively from dates of the contract had not been completed even with delays of 20 months. The extensions of time had been awarded in 03 instances, allowing to keep the mobilization amounting to Rs.14.8 million advances. | -Do- | The construction works were remained late, due to the intervention of the Lending Agency and shortage of suitable soil material for embankment purposes and unfavorable whether condition. | -Do- |
| (d) The time extensions had been granted to the contractors to complete the construction works under Bellanoya, Ithakattuwa, Peellekadura Water Supply and Mariarawa Water Supply Projects in Monaragala Districts despite no any works under the contract had been carried out. However, the contract had been terminated in 2019, due to poor performance of the contractors. | -Do- | Not commented. | -Do- |
| (e) According to the initial plans of the Project, 14,306 lavatories scheduled be constructed by the Projects in the above mentioned 07 districts. However, after completing 03 years of the period operations of the Project as at 31 December 2018 only the construction works of 8,084 lavatories had been completed. Further, 1164 lavatories to be constructed in Nuwara Eliya district and only 724 lavatories had been constructed at the end of the year under review. | -Do- | The progress on construction of the toilets were remained in the demand driven factors and the community responses. Therefore, action had been taken to change the initial process and restructure the sanitation component. | |

3.3 Observations made on site visits

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
Out of 8800 metres of PVC pipes procured at Rs.880,866 procured for the use of Dombagaswinna Rural Water Supply Scheme, only 2347.38 meters of pipes had been utilized. It was observed during physical inspection that the unused pipes had been stored in several locations including community premises without any security.	Possible losses on assts on stealing and misuses.	This is one of most difficult sites of the Project due to lack of access roads Action will be taken to complete the works soon.	Security of the materials need to be ensured.

3.4 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a) The Project had released a sum of Rs.35,145 million up to 31 December 2018 to the Co-operative Societies in Nuwara Eliya district and sum of Rs.28.20 million had been distributed among beneficiaries to construct lavatories. Therefore, a sum of Rs.4.41 million had remained in the hands of co-operative societies for over a year without utilizing for intended purpose. Further, an agreement had been entered into with Plantation Human Development Trust by the Project in order to obtain implementation support in plantation sector and that agreement had been expired on 30 June 2017.	Possible misuse of funds.	Funds flow mechanism in the plantation areas was to reallocate funds to Estate Workers' Cooperative Society and from the Estate Workers' Cooperative Society to the beneficiaries. After studying the fund flow mechanism, it was found that in the previous projects. money disbursed to the estate beneficiaries has a severe risk of not utilizing money for the purpose. At this point the Estate Workers' Cooperative Society undertook the construction work through their contractor base.	Immediate action should be taken to distribute funds in hand of corporative societies to the relevant beneficiaries or to recover.
(b) It was observed that 03 motor vehicles procured at a cost of Rs.4.23 million had been provided by District Support Unit to Human Development Trust during the year under review. Further another 06 motor vehicles acquired on rent basis had been released to National Water Supply and Drainage Board	Allowed opportunity to use the properties of the Project to outside parties.	The motor vehicles had been released to the Implementation Partners to carry out the activities of the Project .	A mechanism should be established to monitor the utilization of assets belongs to the Project.

and to the Ministry of City Planning, Water Supply.

3.5 Issues Related to Human Resources Management

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
<p>a) The Project had deployed 119 employees of outside institutions contrary to the Department of Management Service Circular No.01/2016 dated 24 March 2016 and paid a sum of Rs.59.20 million during the year under review. Further out of above employees 40 employees had been deployed for 08 positions which had not been approved by Management Service Department such as Quantity Survey, Draftsman, Site Supervisor and Account Clerk.</p>	<p>Controls on payment of remunerations and other allowances may be weaken.</p>	<p>The Project is engaged in designing of 120 sub-projects and 200 rehabilitation projects. Due to reallocation made on sanitation component, the Projects had to design 07 public convenience centers, 42 school sanitation works, 400 women headed sanitation and more than 100 differently able sanitation. Some of these were not identified at the implementation stage of the Project. Therefore, from time to time, additional requirement of staff has been identified by the Lending Agency</p>	<p>Need to obtain the approval of the Department of Management Service.</p>
<p>(b) It was observed that 02 Programme Officers of the Line Ministry had been released to the Project Monitoring Unit on part time basis, contrary to the provisions of the Circular No. 01/2016 of 24 March 2016 of the Department of Management Service. Further, it was observed that no any officers in the above post are actively participating in project activities.</p>	<p>It will lead to loss of transparency.</p>	<p>They are involved in Project sites and submit reports on project programmes.</p>	<p>Need to be established a monitoring mechanism.</p>

