

Community-Based Rural Water Supply and Sanitation Project in Post Conflict Areas of Jaffna and Kilinochchi Districts - 2013

The audit of financial statements of the Improving Community Based Rural Water Supply and Sanitation in Post-Conflict Areas Project for the year ended 31 December 2013 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 11 (a) of the Grant Agreement No. 9154 SRI dated 01 August 2011 entered into between the Government of Sri Lanka (GOSL) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement of the Improving Community-Based Rural Water Supply and Sanitation in Post-Conflict Areas of Jaffna and Kilinochchi Project, then Ministry of Water Supply and Drainage presently, the Ministry of Urban Development, Water Supply and Drainage is the Executing Agency of the Project and the National Water Supply and Drainage Board (NWSDB), Delft Pradeshiya Sabha, Valikamam South West Pradeshiya Sabha and Karachchi Pradeshiya Sabha are to serve as the Implementing Agencies of the Project. The primary objective of the Project is to reduce poverty and improve the quality of life in post- conflict rural communities and returning internally displaced people in Jaffna and Kilinochchi districts through improved water supply and sanitation services.

The estimated total cost of the Project is US\$ 2.42 million and out of that US\$ 2 million or 83 per cent of the total cost was agreed to be financed by the Japan Fund for Poverty Reduction (JFPR) through ADB and US\$ 0.26 million or 11 per cent of the total cost was agreed to be financed by the Government of Sri Lanka (GOSL). The balance of US\$ 0.16 or 6 per cent of total cost should be financed through community contribution. The Project commenced its activities on 01 August 2011 and scheduled to be completed by 30 June 2014.

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 Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in the financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of the financial statements as well as evaluating their overall presentation. I have

obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. The audit examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 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 Grant etc.,
- (c) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement,
- (d) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project,
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles,
- (g) Whether the withdrawals from and replenishments to the Imprest Fund Accounts had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date, and
- (h) Whether the financial covenants laid down in the Grant Agreement had been complied with.

3. 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 the paragraph 5 of this report , I am of opinion that,

- (a) the Project had maintained proper accounting records for the accounting year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles.

- (b) the funds provided had been utilized for the purposes for which they were provided.
- (c) 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 Grant Agreements, and
- (e) the financial covenants laid down in the Grant Agreements had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 69,320,374 and cumulative expenditure as at 31 December 2013 amounted to Rs 72,776,252. A summary of the expenditure of the Project for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 are shown below.

<u>Item of Expenditure</u>	<u>Expenditure for the year</u>		<u>Cumulative</u>
	<u>ended 31December</u>		<u>expenditure as at 31</u>
	<u>2013</u>	<u>2012</u>	<u>December 2013</u>
	<u>Rs</u>	<u>Rs</u>	<u>Rs</u>
Civil Works	28,928,473	-	28,928,473
Office Furniture	142,729	2,010,040	2,152,769
Motor Vehicles	13,211,940	-	13,211,940
Training Workshops	656,906	-	656,906
Consultancy Services for Design and Supervision	15,016,612	-	15,016,612
Consultancy Services for Social Mapping	222,900	-	222,900
Project Management	11,140,814	1,445,838	12,586,652
	<u>69,320,374</u>	<u>3,455,878</u>	<u>72,776,252</u>

4.1 Imprest Fund Account

According to the financial statements and the information made available to audit, the operations of the Imprest Fund Account year ended 31 December 2013 is given below.

	<u>US\$</u>	<u>Rs.</u>
Balance as at 1 January 2013	61,649	7,839,369
Add: Replenishments	149,842	19,629,874
Foreign Exchange Gain	-	271,183
	<u>211,491</u>	<u>27,740,426</u>
Less: Withdrawals	<u>148,967</u>	<u>19,565,207</u>
Balance as at 31 December 2013	<u>62,524</u>	<u>8,175,219</u>

5. Audit observations

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The following observations are made.

- (a) Even though the audited financial statements are required to be submitted to the Donor Agency within six months of the end of the fiscal year, the draft financial statements of the Project for the year ended 31 December 2013 were furnished for audit only on 21 August 2014.
- (b) Payables aggregating to Rs.368,280 as at 31 December 2013 to the members of the Community Base Organizations had not been brought to account.
- (c) Transactions of the Project had not been subjected to audit by the Internal Audit of the National Water Supply and Drainage Board as per the Management Audit Circular No. 05 and 26 July 2010.

6. Financial and Physical Performance

6.1 Utilization of Funds

Certain significant statistics relating to the financing and budgetary provision for the year under review, utilization of funds during the year under review and the cumulative utilization as at December 2013 are shown below.

Source	Amount agreed to be provided as per the Grant Agreement		Budgetary provision for the year 2013	Funds Utilized		
	-----			during the year 2013	as at 31 December 2013	
-----	US\$ million	Rs. million	Rs. million	Rs. million	US\$ million	Rs. million
JFPR	2.00	221.70	90.00	59.31	0.47	61.75
GOSL	0.26	28.82	10.00	10.01	0.08	11.03
Community Contribution	0.16	17.74	—	—	—	—
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Total	2.42	268.26	100.00	69.32	0.55	72.78
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The Project had utilized US\$ 72,776,252 up to 31 December 2013 representing 29.64 per cent, out of total Grant allocated for the activities of the Project even after lapse 29 months of the period of the Project. Thus, the utilization of balance amount of US\$ 177,845,178 during the rest of period of 21 months of the Project is doubtful.

6.2 Physical Performance

The following observations are made.

- (a) Although the Project scheduled to be completed by 30 June 2014, according to the progress report prepared by the Project, the overall physical and financial progress of the Project at the end of the year under review was 40 per cent and 25.72 per cent respectively.
- (b) According to the progress report of the Project, 90 per cent of the construction of a Well at Sarapiti in Delft is expected to be completed as at 31 December 2013. However, 40 per cent of such works had been completed as at that date.
- (c) Out of 24 activities of the Project which scheduled to be completed as at 31 December 2013, works under 19 activities had been commenced during the last quarter of the year under review.