

## **Greater Colombo Water Rehabilitation Project - 2013**

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The audit of financial statements of the Greater Colombo Water Rehabilitation 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 4.03(a) of Article IV of the Subsidiary Loan Agreement No: SL-P 90 dated on 03 September 2008 entered into between the Democratic Socialist Republic of Sri Lanka and the National Water Supply and Drainage Board. This Project is implemented as per Loan Agreement No: SL-P 90 dated on 28 March 2007 entered into between Japan Bank for International Cooperation presently, known as Japan International Cooperation Agency and the Government of Sri Lanka.

### **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 are to rehabilitate and enhance the water supply in the city of Colombo and Kotikawatta – Mulleriyawa area by constructing a new office building complex and a new reservoir at Maligakanda, constructing a reservoir at Elia House, improving water supply system at Kotikawatta and Mulleriyawa and providing water connections in selected tenement gardens in Colombo city. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 5,359 million equivalent to Rs. 4,785 million and out of that, Japan Yen 3,975 million or 74.18 per cent equivalent Rs. 3,549 million was agreed to be provided by the Japan International Cooperation Agency and the balance sum of Japan Yen 1,384 million or 25.82 per cent equivalent to Rs. 1,236 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 27 November 2007 and was scheduled to be completed by January 2012. Subsequently, the period of the Project had been extended up to September 2015.

### **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 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 judgement, 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 identification of the purchases made out of the Loan, etc.
- (d) 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.
- (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 equipments 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 financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) 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 described in paragraph 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 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 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 Financial Statements**

According to the Circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Project for the year ended 31 December 2013 required to be submitted to the Auditor General on or before 31 March 2014 had been submitted only on 04 July 2015.

### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a) The interest amounting to Rs.172.64 million charged as at 31 December 2013 by the General Treasury from National Water Supply and Drainage Board on the Subsidiary Loan had been shown under the civil work -in-progress.
- (b) Value Added Tax aggregating Rs. 370.47 million paid had been set off against the proceeds of government contribution instead shown under work-in-progress.

### **2.2.3 Non - Compliance with Laws, Rules and Regulations**

The following instances of non-compliances were observed in audit.

- (a) The Board of Surveys on property, plant and equipment of the Project had not been carried out, according to the Financial Regulation No. 756. Further, the Fixed Assets Register required to be maintained, according to the Treasury Circular No. 1A1/2002/02 of 28 November 2002 had not been maintained.
- (b) The provision for gratuity for 02 employees of the Project whose period of the service exceeded over 05 years as at 31 December 2013 had not been made in the financial statements.

### 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 2013 are shown below.

Source	Amount agreed for Financing in the Loan Agreement		Allocation made in the Budgetary provision for the year under review		<u>Funds utilized</u>			
					during the year 2013		up to 31 December 2013	
	JPY million	Rs. million	JPY million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	3,975	3,549	381.68	500	372.24	488.22	2,325.98	3,168.52
GOSL	1,384	1,236	106.87	140	77.86	102.00	659.24	896.57
<b>Total</b>	<b><u>5,359</u></b>	<b><u>4,785</u></b>	<b><u>488.55</u></b>	<b><u>640</u></b>	<b><u>450.10</u></b>	<b><u>590.22</u></b>	<b><u>2,985.22</u></b>	<b><u>4,065.09</u></b>

#### 3.2 Physical Progress

According to the progress reports furnished by the Project, the physical progress of construction of office building at Maligakanda, supply and laying of Water Distribution Network of Gothatuwa – Mulleriyawa- Kotikawatta areas and reconstruction of Elie House Reservoir had been reported as 90 per cent as at 31 December 2013 and the works completed had been handed over to National Water Supply and Drainage Board in 2014. The following observations are made on other activities implemented by the Project.

- (a) The works for rehabilitation of roads, development activities at vehicle parking areas, landscaping activities and erecting of bounding walls and fencing of yards etc, had not been completed due to delays of Colombo Municipal Council to release suitable lands to the National Water Supply and Drainage Board.
- (b) It was observed at the physical inspection made on 14 August 2015 that the construction works of Maligakanda Valve House had not been commenced even as at the date of audit inspection eventhough the clearance of the land belongs to Colombo Municipal Council had been completed. As a result, the Reservoir Tank at Maligakanda which was completed at the end of the year 2014 at a cost of Rs. 275,091,484 was remained idle.
- (c) Although detailed Action Plan had been prepared by the Project covering physical targets, there were no mechanism introduced for identification of deviation of the works and required remedial measures. Therefore, it was evidenced that the Action plan had not been utilized as an effective instrument of control for the Project activities.

### **3.3 Matters in Contentious Nature**

As a practice, the computation of the remuneration for the staff of the Project is being done by the National Water Supply and Drainage Board and 20 per cent of overhead is charged from the Project even though the Project possessed adequate staff for its administration works. The overhead charges amounting to Rs.73.37 million had been recovered by the National Water Supply and Drainage Board up to 31 December 2013.

### **3.4 Issues on Financial Control**

According to the Financial Regulation 134(3) and Management Audit Circular No. 05 of 26 July 2010, the activities of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board.