

## **Jaffna Kilinochchi Water Supply and Sanitation Project - 2014**

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The audit of financial statements of the Jaffna Kilinochchi Water Supply and Sanitation Project for the year ended 31 December 2014 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 4.05 of Article IV of the Loan Agreement No.2710-SRI (Ordinary Operations) and Section 4.03 of Article IV of the Loan Agreement No.2711-SRI (SF) (Special Operations) dated on 08 February 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

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

According to the Loan Agreement of the Project, then the Ministry of Water Supply and Drainage, presently the Ministry of Urban Development and Water Supply and Drainage is the Executing Agency and the National Water Supply and Drainage Board and the Provincial Irrigation Department through the Northern Provincial Council under the Ministry of Local Government and Provincial Council are the Implementing Agencies of the Project. The objectives of the Project are to improve water supply and sanitation infrastructure for residents living in the Project area and to protect and manage Jaffna Peninsula water resources. It was further expected to improve water supply and sanitation infrastructure, strengthening Jaffna water resource management and construction of Jaffna Regional Office to enhance implementation capacity. As per the Loan Agreement, the total cost of the Project component in relation to the National Water Supply and Drainage Board was US\$ 147.32 million equivalent to Rs.16,460.07 million and out of that US\$ 76.45 million equivalent to Rs.8,541.76 million or 52 per cent was agreed be provided by the Asian Development Bank. Further, US\$ 48 million equivalent to Rs.5,363.04 million or 33 per cent was agreed to be provided by the Agence Francaise de Development and the balance of US\$ 22.87 million equivalent to Rs. 2,555.27 million or 15 per cent was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 15 February 2011 and scheduled to be completed by 14 February 2017.

### **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 Loans etc,
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements,
- (e) Whether the funds, materials and equipment supplied under the Loans 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 Sri Lanka Accounting Standards.
- (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 Agreements 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 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (b) the funds provided had been utilized for the purpose for which they were provided.
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the application for reimbursement in accordance with requirements specified in the Loan Agreements.
- (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 statements laid down in the Loan Agreements had been complied with.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Accounting Deficiencies**

The following observations are made.

- (a) Office rents for the period from January to May 2015 amounting to Rs. 450,000 had been shown in the financial statements of the year under review as non-current assets.
- (b) Commitment and interest charges amounting to Rs. 20.11 million recovered by the Asian Development Bank as at 31 December 2014 had not been accounted for.

### 2.2.2 Un-reconciled Balances

According to the financial statements of the National Water Supply and Drainage Board, the work-in-progress of the activities carried out by the Project as at 31 December 2014 amounted to Rs.837.43 million. However, according to the financial statements of the Project it was shown as Rs.743.62 million. The difference of Rs.93.81 million had not been reconciled.

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

The following instances of non-compliances were observed.

- (a) The financial statements of the Project for the year ended 31 December 2014 required to be submitted for audit purposes before 28 February 2015 had been submitted only on 05 May 2015.
- (b) The transactions of the Project of the year under review had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board as required by the Financial Regulation 134(3) and Management Audit Circular No.05 of 26 July 2010.

## 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 2014 are shown below.

Source	Amount agreed for financing according to the Loan Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilization			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	76.45	8,541.76	505.00	3.07	420.30	5.77	769.89
AFD	48.00	5,363.04	20.00	0.11	15.32	0.77	103.34
GOSL	22.87	2,555.27	200.00	0.78	104.82	1.64	218.55
	<b>147.32</b>	<b>16,460.07</b>	<b>725.00</b>	<b>3.96</b>	<b>530.44</b>	<b>8.18</b>	<b>1,091.78</b>

### **3.2 Physical Progress**

The following observations are made.

- (a) The scope of the Project had been divided into 13 packages and the total estimated cost was Rs. 91.72 million. Of these 13 packages, works in relation to advance pipe crossing works and the construction of a building for regional office had only been completed as at 31 December 2014.
  
- (b) As initially expected by the Project, the use of Iranamadu Tank as the main source to supply water for Jaffna Peninsula was abandoned due to protests of the communities living in the Iranamadu area. However, the Cabinet of Ministers had decided on 15 July 2015 to convert the activities of the Project to desalt sea water as an alternative proposal to fulfill the water requirement of the Jaffna Peninsula. Therefore, the scope of the Project had been changed completely and the cost and duration of the Project could not be determined in audit.