

**Conflict-Affected Region Emergency Project - Component “B”**  
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**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 3 of this report, I am of opinion that;

- (a) the Project had maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2012 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Accounts during the year ended 31 December 2012 had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2012 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) 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 and Grant Agreements,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan and Grant Agreements had been complied with.

**2. Financial Statements**  
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**2.1 Financial Performance**  
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According to the financial statements and information made available for audit, the expenditure for the year ended 31 December 2012 amounted to Rs.1,119,279,544 as compared with the expenditure of Rs. 252,461,586 for the preceding year and the cumulative expenditure as at 31 December 2012 amounted to Rs.1,372,576,555. The following statement shows a summary of the expenditure for the year under review, for the preceding year and the cumulative expenditure as at 31 December 2012.

Description	Expenditure for the year ended 31 December		Cumulative expenditure as at 31 December 2012
	2012	2011	
	Rs.	Rs.	Rs.
Civil Works – Water Supply Board – Loan	233,427,326	76,651,454	310,078,780
Water Supply Board – Grant	178,185,515	-	178,185,515
CEB	663,592,082	139,171,453	802,763,534
Consultancy – Water Supply Board	1,247,914	5,038,962	6,286,877
Incremental Operational Cost -			
Water Supply Board	13,258,635	4,198,351	17,673,071
PCQAU	16,138,361	12,520,504	29,346,067
Equipment - PCQAU	2,985,669	1,947,387	4,865,193
Finance Charges -			
Commitment Charges	5,262,084	12,001,715	17,263,800
Interest	5,181,958	931,760	6,113,718
<b>Total</b>	<b>1,119,279,544</b>	<b>252,461,586</b>	<b>1,372,576,555</b>

## 2.2 Imprest Fund Accounts

According to the financial statements and information made available, a summary of the operations of First Generation Imprest Fund Accounts (Loan and Grant) for the year ended 31 December 2012 are given below.

	Loan		Grant	
	US\$	RS.	US\$	RS.
Balance as at 01 January 2012	519,824	59,208,665	150,000	17,085,195
<u>Add:</u> Replenishments	269,592	34,535,016	-	-
Foreign Exchange Gain	-	7,311,759	-	1,968,555
	789,416	101,055,440	150,000	19,053,750
<u>Less:</u> Withdrawals - PCQAU	142,453	18,460,229	-	-
- Water Supply Board	151,227	19,557,198	128,867	16,366,460
	495,736	63,038,012	-	-
Bank charges	37	4,484	-	-
<b>Balance as at 31 December 2012</b>	<b>495,699</b>	<b>63,033,528</b>	<b>21,133</b>	<b>2,687,290</b>

### **3. Audit Observations**

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#### **3.1 Reimbursement of Funds**

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It was observed that two reimbursement applications valued at Rs.754,566 (US\$6,638.89) had been withheld by the Bank due to the following reasons.

- (i) Procurement of unapproved office equipment
- (ii) Duplicate claim

#### **3.2 Accounting Deficiencies**

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Following observations are made.

- (a) Interim contract amount of Rs.541,643 payable to the contractor for the Tower Transmission Main and Distribution works in Echchalampattu Water Supply Scheme carried out by the Water Supply Board, had not been brought to accounts as accrued expenses. As a result, value of the civil works and work-in progress had been understated by that amount.
- (b) Internal audit activities had not been carried out on the transactions of the Component “B” in terms of Financial Regulation No.133.
- (c) Annual physical verification in respect of the office equipment shown in the financial statements had not been carried out in terms of Financial Regulation No.756.

#### **3.3 Non-compliance with the Project Administration Manual (PAM)**

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The following non-compliances were observed in audit.

- (a) In terms of paragraph 15 of the PAM, a National Steering Committee (NSC) chaired by the Secretary to the Ministry of Economic Development should be met monthly. However, no NSC meetings were held during the year under review. Therefore the Committee was unable to provide guidance to the implementing agencies on policy aspect and review the overall progress of the Component according to the PAM instructions.
- (b) In terms of paragraph 115 of the PAM, the Ministry should have dedicated website for this Project including bidding procedures, bidders and award of contracts, use of the funds disbursed under the Project and physical progress. However there was no such dedicated website designed even up to 30 April 2013.
- (c) According to the table 11 of the PAM, review missions should be conducted at least twice a year. However, only one review mission report was made available for audit purpose. In addition, Report and Recommendations to the President (RRP) with appendices, quarterly project performance reports and project information document, and quarterly progress reports were also not made available for audit.

### 3.4 Utilization of Funds

Even though sums of Rs.5,212.3 million and Rs.190.74 million (approximately) had been made available under the Loan and Grant respectively of the following categories for carrying out the activities of the Component “B”, the actual expenditure incurred as at 31 December 2012 amounted to Rs.1,194.39 million and Rs.178.19 million or 22.9 per cent and 93.4 per cent respectively of the funds available as shown below.

Description	Estimated Expenditure		Cumulative Expenditure as at 31.12.2012	Cumulative Expenditure as a percentage of Total Provision
	US \$	Rs. million	Rs. million	%
Investment Cost				
Civil Works	30.07	3823.70	1,112.84	29.1
Equipment and Furniture	1.68	213.63	4.86	2.3
Consultants Design and Supervision	0.3	38.15	6.29	16.5
Recurrent Cost				
Incremental	0.3	38.15	17.67	46.3
Project Management - PCQAU	1.37	174.21	29.35	16.85
Physical and Price Contingencies	6.29	799.84	-	-
Sub Total		4,599.28	1,171.01	25.5
Finance Charges (Commitment charges and Interest)	0.98	124.62	23.38	18.8
Sub Total		5,212.30	1,194.39	22.9
Civil Works - Grant	1.5	190.74	178.19	93.4
<b>Grand Total</b>	<b>42.49</b>	<b>5,403.04</b>	<b>1,372.58</b>	<b>25.4</b>

The following observations are made in this regard.

- (a) According to the Loan Agreement, the Component “B” of the Project was expected to be completed by 30 June 2013. However, at the end of the year 2012, the Component "B" had utilized only 25.4 per cent of the total approved allocation. It appears that there is a risk regarding the completion of the Component “B” of the Project within the scheduled period.
- (b) Even though a sum of Rs.3,823.7 million had been allocated for civil works, only a sum of Rs.1,112.84 million or 29.1 per cent of the total provision had been utilized for intended purposes. However, in terms of paragraph 12, of table B, of the overall project implementation plan of the Project Administration Manual, almost all the power and water supply activities should be completed by end of March 2013.

- (c) According to Section 3.02 of the Loan Agreement the borrower shall pay an interest and 0.15% of commitment charges on the loan amount disbursed and un-disbursed respectively. If the Project had performed according to the implementation plan, payment of commitment charges would be less than the interest paid. However, due to the poor performance of the component, ADB had withdrawn Rs.5,181,958 and Rs.5,262,085 respectively as interest and commitment charges from the Loan Account on behalf of the Component “B”.
- 3.5** Educational and professional qualifications, experience and competencies required for the project staff should be as specified in Section 2.2.9 of the Management Services Circular No. 33 dated 05 April 2007. However, an Engineering Assistant who did not possess those qualifications and experience had been recruited and monthly allowances aggregating Rs.892,475 had been paid to him during the period employed.
- 3.6** A comprehensive detailed action plan highlighting financial and physical targets in monthly and quarterly basis with fixing responsibilities to cover entire project period should be prepared to ensure the completion of project objectives within the specific project period. However, such a plan had not been prepared and implemented by the Project Coordination and Quality Assurance Unit .