

Dry Zone Urban Water and Sanitation Project (Loan No.2477-SRI) 2012

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 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 Agreement,
- (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 Agreement had been complied with

2. Financial statement

2.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2012 amounted to Rs.880,427,452 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 1,400,461,970. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 is shown below.

Item	Expenditure for the year ended 31		Cumulative Expenditure as at 31 December 2012
	December		
	<u>2012</u>	<u>2011</u>	
	Rs.	Rs.	Rs.
Work -in - progress	854,765,289	339,497,791	1,351,366,762
Property, Plant and Equipment	25,662,163	8,361,091	49,095,208
	880,427,452	347,858,882	1,400,461,970

2.2 Imprest Fund Accounts

According to the books and records maintained by the Project and the information made available, the operations of the Imprest Fund Accounts for the year ended 31 December 2012 are given below.

(1) Loan No – 2477 (ADB)

	US\$	Rs
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Balance as at 1 st January 2012	76,563	8,720,628
Add: Replenishment	30,622	3,989,192
Foreign exchange gain	-	1,137,467
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	107,185	13,847,287
Less : Withdrawals	94,508	12,235,272
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Balance as at 31 December 2012	<u>12,677</u>	<u>1,612,015</u>
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(II) Grant No -129 (ADB)

	US\$	RS
	-----	-----
Balances as at 1 st January 2012	1,183,595	134,812,981
<u>Add: Replenishments</u>	1,085,955	139,998,758
Foreign Exchange Gain	-	14,782,528
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	2,269,550	289,594,267
<u>Less: Withdrawals</u>	<u>1,081,793</u>	<u>138,558,218</u>
Balances as at 31 December 2012	<u>1,187,757</u>	151,036 049
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(III) Grant No -130 (NTF)

	US\$	RS
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Balance as at 1 st January 2012	142,029	16,177,357
<u>Add: Replenishments</u>	573,345	73,071,782
Foreign Exchange Gain	-	1,605,193
	-----	-----
	715,374	90,854,332
<u>Less: Withdrawals</u>	<u>574,120</u>	<u>72,892,248</u>
Balance as at 31 December 2012	<u>141,254</u>	<u>17,962,084</u>

3. Audit observations

3.1 Accounting Deficiencies

Following observations are made

- (a) Expenses incurred from GOSL funds during the year 2008 amounting to Rs. 7.8 million could not be satisfactorily vouched in audit due to non-availability of vouchers and relevant supporting documents. Even though this position was highlighted in my previous years audit reports action had not been taken by the management to rectify this issue.
- (b) Assets procured during the year valued at Rs. 4,073,550 on behalf of NWSDB had been shown as receivable from the NWSDB in the financial statements without taking action to recover.
- (c) Although a sum of US\$ 18 million had been available in the Loan and Grant agreements to procure of construction equipment, materials and office equipment, GOSL funds of Rs.10,503,234 had been utilized by the Project during the period of 2009 to 2012 for the above purpose. .
- (d) As per the information provided by the Ministry of Water Supply, a sum of Rs.573,169,030 had been provided through local funds for implementation of the Project as at 31 December 2012. However as per Project account, the corresponding figures was Rs.557,259,844. Although this difference had been identified, no action had been taken to adjust in the accounts for the year under review.

3.2 Utilization of Funds

Following observations are made.

- (a) Although detailed action plan had been prepared covering entire Project period by highlighting financial and physical targets in quarterly manner, due to lack of progress report based on the above plan there were no mechanisms introduced for identification of deviations and taking required

remedial measures. Therefore the above plan had not been utilized for effective control device for the Project activities.

(b) According to the information made available, financial progress of the Project as at 31 December 2012 is given below.

	ADB LOAN	ADB GRANT	NTF	GOSL	TOTAL
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Agreed contribution (US\$ Mn)	59.78	23.22	2.00	28.33	113.33
Project expenditure up to 31 December 2012 (US\$ Mn)	3.24	2.95	1.19	4.74	12.12
Utilization of funds as a Percentage	5.42	12.70	59.50	16.73	10.69

During the year 2010 second generation imprest fund account had been opened in the People's Bank and a sum of Rs. 1,999,999 had been deposited in this account. However it had not been used up to end of the year 2012.

(c) 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 2012 are shown below.

	Amount agreed to be provided in the Loan Agreement		Budgetary provision for the year 2012	Funds utilized during the year	Funds utilized up to 31 December 2012
	US\$ (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)
	-----	-----	-----	-----	-----
ADB	85	9,767.35	600	501.8	924.8
GOSL	28.33	3,255.40	300	298.2	557.2
Total	<u>113.33</u>	<u>13,022.75</u>	<u>900</u>	<u>800*</u>	<u>1,482.0*</u>

*These amounts differ from the amounts shown in paragraph 2.1 of this report due to exclusion of advances and accrued expenses.

Due to lack of annual target for financial and physical achievement, actual amount required to be utilized as at 31 December 2012 could not be ascertained. According to above information relating to utilization of funds it appears that progress of the Project was very much behind from achievement of targets.

3.3 Physical Performance

The Project was scheduled to be completed by 30 June 2013. According to the progress reports prepared by the Project, the overall physical and financial progress of the Project as at end of the year under review was 31.25% and 10.69 % respectively. However 86% of the Project period had been expired as at 31 December 2012 and cumulative performance of the each of the project component were as follows.

Project activity / Project component	Expected Target as at 31 December 2012	Progress as at end of the year 2012
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Preliminary Task	5.61	5.49
Investigating and Surveying	1.92	1.76
Resettlement	1.12	0.56
Surface Water Development in Chilaw and Puttalam Districts (SW/C&P/O1)	1.00	0.92
Surface Water Development in Vauniya (SW/V/02)	1.40	1.36
Ground Water development, Chilaw, Puttalam, Vavuniya and Mannar (GW/V&M/03A)	0.19	0.16
Ground Water development in Chilaw, Puttalam, Vauniya and Mannar (GW/V&M/03B)	0.0	0.0
Construction of New Treatment Plants and Installation of		

P.S.No. 2014/341 Fourth Instalment – Part V III Foreign Funded Projects - Report of the Auditor General 2012

pumps ,automation system and Mechanical and Electrical (M and E) equipment in Chilaw and Puttalam (WTP/C&P/04-A)	1.85	1.53
Construction of New Treatment Plants and Installation of pumps,automation system and M&E equipments in Chilaw and Puttalam (WTP/C&P/05)	1.13	1.06
Supply and laying of DI HDPE &PVC pipes, special fittings and valves for transmission mains and distribution systems in Chilaw (PIPES/C/08A)	0.64	0.59
Supply and laying of DI HDPE &PVC pipes, special fittings and valves for transmission mains and distribution systems in Chilaw (PIPES/C/08B)	1.20	1.11
Supply and laying of DI HDPE &PVC pipes, special fittings and valves for transmission mains and distribution systems in Puttalam (PIPES/P/09)	1.40	1.32
Supply and laying of DI HDPE &PVC pipes, special fittings and valves for transmission mains and distribution systems in Puttalam (PIPES/P/10)	1.40	1.32
Supply and laying of DI HDPE &PVC pipes, special fittings and valves for transmission mains and distribution systems in Puttalam (PIPES/M/11)	0.80	0.80
Construction of Water storage structure in Mannar(STRUM/M12)	0.67	0.60
Supply and Laying of HDPE,DI pipes for water Transmission main from Murunkan to Mannar with branch off to Vankalai(P&D/CN/ADB5/2010/01	3.52	3.36
Septage treatment facility and associated construction and E&M equipment in Chilaw and Puttalam(SEP/C&p/O6)	0.75	0.68
Septage treatment facility and associated construction and E&M equipment in Chilaw and Puttalam(SEP/C&p/O7)	0.75	0.74
Supply and Delivery of Crane Truck 01 No,Vacuum Tankers 03 Nos,Single Cabs 08 Nos, Mini Trucks 04Nos and Motor bicycles 12 Nos (Supply ALL/13	0.49	0.45
Construction of public toilets in Chilaw (PT/C/14)	0.19	0.19

P.S.No. 2014/341 Fourth Instalment – Part V III Foreign Funded Projects - Report of the Auditor General 2012

Construction of public toilets in Puttalam (PT/C/15)	0.19	0.19
Construction of public toilets in Vavuniya (PT/C/16)	0.19	0.16
Construction of Public toilets in Mannar (PT/C/17)	0.19	0.16
Low-Cost sanitation to communities in Chilaw/Puttalam/Vavuniya and Mannar	0.38	0.36
Package C- Consultancy on water Resources Management (P&D/C,N/ADB5/2009/01)	4.00	4.00
Construction of Office Building for Regional Supporting Centre (North) at Vavuniya	2.50	2.40
Package B- Consultancy on Institutional Development	0.00	Not Implemented
Overall progress	33.47	31.25

3.4 Sanitation Programme

Information with regard to physical progress of the sanitation programme as at end of the year under review is given below.

District secretariat Division	Units Expected to be Completed	Units Completed as at 31 Dec 2012	Disbursement by the Project	
			As per Financial Statements	AS per Progress Report
	-----	-----	-----	-----
			Rs.million	Rs. million
Chilaw	500	176	4,526,745	4,518,740
Puttalam	500	285	6,719,575	6,719,575
Maanar	330	87	6,304,980	3,154,620
Vavuniya	500	-	-	-
Total	<u>1830</u>	<u>548</u>	<u>17,551,300</u>	<u>14,392,935</u>

Following observations are made in this regard .

- (i) According to the implementation plan 1126 units of latrines to be completed as at 31 December 2012. However due to prevailing progress as mentioned above as at 31 December 2012 it was doubtful whether expected targets could be achieved.

- (ii) A test check carried out by audit in selected areas revealed that several latrines had not been utilized for intended purposes due to lack of knowledge about utilization of those latrines and enhancement of their health of the beneficiaries. Although awareness programs should be conducted until proper utilization of above latrines, adequate programs had not been conducted.