

Secondary Towns and Rural Community Based Water Supply and Sanitation Project (Loan No 2757 -SRI) - 2013

The audit of financial statements of the Secondary Towns and Rural Community Based Water Supply and Sanitation 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 (GOSL) read in conjunction with Section 2.09 of Article (a) of the Loan Agreement dated 22 July 2011 entered into between the National Water Supply and Drainage Board (NWSDB) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project.

According to the Loan Agreement of the Secondary Towns and Rural Community Based Water Supply and Sanitation Project, the National Water Supply and Drainage Board (NWSDB) under the Ministry of Water Supply and Drainage is the Executing and Implementing Agency of the Project. The objectives of the Project are to; provide safe water to 969,000 people and sanitation to 171,500 people in five urban areas and in the rural areas of North Central Province and increase the capacity of the GOSL to provide safe water by strengthening the water sector institutions. The ADB has approved the Loan No 1993 SRI – (SF) amounting to US\$ 85.6 million including GOSL portion on 18 August 2003. Due to unrealistic project funding and price escalation since its original appraisal the ADB had agreed to provide a Supplementary Loan (Loan No 2757 SRI) to meet the equipment and material cost of construction of head work, raw water transmission and treatment plant at Muthur. According to the Supplementary Loan Agreement, the estimated total cost of the Project is US\$ 5.2 million and out of that US\$ 4.3 million or 82.69 per cent was agreed to be financed by ADB and US\$ 0.9 million or 17.31 per cent was agreed to be financed by the GOSL. Activities of the Project were 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 to 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 financial statements and assessment of accounting policies used and significant estimate made by the management in the preparation of 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 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 GOSL 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.
- (c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (d) Whether the funds, materials and equipment supplied under the Loan 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 opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether financial covenants laid down in the Loan 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 in paragraph 5 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 withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 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.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2013 amounted to Rs. 275,613,175 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 567,349,147. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is shown below.

Item -----	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
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	2013	2012	
	Rs.	Rs.	Rs.
Equipment and Materials	273,427,058	288,401,215	563,293,496
Interest Charges	2,186,117	1,869,533	4,055,651
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Total	<u>275,613,175</u>	<u>290,270,748</u>	<u>567,349,147</u>

4.2 Imprest Fund Account

According to the books and records maintained by the Project and the information made available, the operations of the Imprest Fund Account for the year ended 31 December 2013 and the balance available in that account as at 31 December 2013 are given below.

	<u>US \$</u>	<u>RS</u>
Balance as at 01 January 2013	335,485	42,660,490
Add: Replenishment	-	-
Foreign Exchange Gain		939,694
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	335,485	43,600,184

Less: Withdrawal	303,077	39,362,742
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Balance as at 31 December 2013	<u>32,408</u>	<u>4,237,442</u>

5. Audit Observations

The following observations are made.

- (a) Net foreign currency difference of Rs.3.5 million had inappropriately been shown under current liability in the financial statements.
- (b) A difference of Rs.38 million between value of equipment and materials shown in the Cash Flow Statement and Receipt and Payment Account existed.
- (c) Action had not been taken to deduct one per cent levy for the Construction Industry Guaranteed Fund (CIGFL) on contract payment amounting to Rs 5.6 million made during the year under review and remit to the Commissioner General of Inland Revenue.
- (d) Transactions entered into during the year under review by the Project had not been subjected to internal audit as required by the Management Audit Circular No. 05 of 26 July 2010 of Department of Management Audit of the Ministry of Finance and Planning.

6. Financial and Physical Performance

6.1 Funds Utilization

According to the information received, 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		Budgetary provision for the year 2013	Funds utilized during the year	Funds utilized up to 31 December 2013	
	US\$ Mn	Rs Mn	Rs Mn	Rs Mn	US\$ Mn	Rs Mn
ADB	4.30	485.94	169.77	168.85	3.20	399.24
GOSL	1.20	139.00	85.75	61.25	1.20	154.08
Total	<u>5.50</u>	<u>624.94</u>	<u>255.52</u>	<u>230.10*</u>	<u>4.40</u>	<u>553.32*</u>

* The above mentioned figure differs from the figures shown in paragraph 4.1 of this report, due to effect of accrued expenses.

6.2 Physical performance

A comprehensive detailed Action Plan highlighting financial and physical targets with fixing responsibilities on monthly, quarterly, biannually bases etc covering entire Project period should be prepared to ensure the achievement of Project objectives using allocated resources within the scheduled time period. However, such plan had not been prepared and implemented by the Project.