

**Secondary Towns and Rural Community Based Water Supply and Sanitation Project  
(Loan No 1993 -SRI) - 2012**

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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) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

**2. Financial Statements**

**2.1 Financial Performance**

According to the financial statements and information made available, the expenditure of the Project for the year ended 31 December 2012 amounted to Rs. 666,169,623 and the cumulative expenditure as at 31 December 2012 amounted to Rs. 14,379,848,166. 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 December		Cumulative expenditure as at 31 December 2012
	<u>2012</u> Rs.	<u>2011</u> Rs.	Rs.
Civil works	437,424,058	1,703,093,649	7,778,509,576
Equipment and Materials	76,542,220	1,375,397,001	4,373,218,687
Vehicles	-	-	56,516,200
Consultancy Services	-	39,069,036	892,672,433
Project Management and Office Equipment	13,098,817	3,825,625	96,687,349
Training and Fellowship	(344,788)	36,520,801	209,188,816
Survey and Public Awareness	(32,952)	548,775	28,970,557
Interest charges	64,798,457	23,404,251	330,836,666
Incremental and Operational Cost	74,683,811	107,094,942	613,247,882
	-----	-----	-----
	<b><u>666,169,623</u></b>	<b><u>3,288,954,080</u></b>	<b><u>14,379,848,166</u></b>
	=====	=====	=====

### **3. Audit Observations**

#### **3.1 Accounting Deficiencies**

Following observations are made.

- a) Although interest recovered by the funding agency for the year 2012 amounting to Rs.190,673,987 should be accounted as interest expenses and ADB loan account as per the Loan agreement entered into between the GOSL and ADB, interest paid by the NWSDB for the years 2012 amounting to Rs.330,836,666 had been accounted as interest expenses and interest payable of the Project as per subsidiary loan agreement entered into between the GOSL and NWSDB. Therefore, interest expenses had been overstated by Rs. 140,162,679 and ADB loan had been understated by Rs 190,673,987 for the year 2012.

- b) Payables to the nine contractors aggregating Rs.306,446,148 had been accounted as fund receivable from General Treasury and contribution from Government of Sri Lanka without obtaining any commitment or consent from the General Treasury.
- c) A sum of Rs.13,512,156 received from Grater Trincomalie Water Supply Project to meet expenditure for the ADB assisted water supply and sanitation (sector) Project had erroneously been accounted for as civil works of this Project.

### **3.2 Operating Inefficiencies**

Following observations are made.

- a) Seven out of nine contracts to the value of Rs. 9,224,635,556 had been delayed from 10 months to 28 months when compared to scheduled dates of completion.
- b) Construction contract for raising of tank bund and associated structures of the Unnichchai tank in Batticaloa had been awarded in 2006 without obtaining clearance from Ministry of Defence. As a result, a sum of Rs.55 million had to be paid as delayed payment and compensation due to idle of machinery of the contractor and delay in settlement of bills.
- c) Although two contracts to the aggregated value of Rs.2,669,899,239 had been handed over by the contractor to NWS&DB, on substantive completion certificates, final completion reports had not been issued even after lapse of more than two years from defect liability period.
- d) Although supply and laying of treated water pumping main distribution pipe (10.5 K.M) and construction of elevated water (2.nos) contract with a value of Rs.1,162,504,731 should have been completed in 2009, it had been completed on

30 September 2011 only. However, it has been idle because of non completion of contract of head work, raw water transmission main treatment plant and treated water pumping main contract which should been completed parallel to the previous contract. It was further observed that overall physical progress of this contract as at 30 June 2013 was 42 per cent only.

**3.3 Non-compliance with Laws, Rules, etc.**

Although a physical verification of assets of the Project should have been carried out annually, physical verification of assets had not been carried out for the year 2012 in terms of Financial Regulation 756. Aggregated value of fixed assets as per the statement of financial position as at 31 December 2012 was Rs.121,876,034.

**3.4 Lack of evidence for audit**

Following items in the accounts could not be satisfactorily vouched in audit due to non availability of evidence indicated against each.

<b>Description</b> -----	<b>Amount</b> ----- <b>Rs.</b>	<b>Evidence</b> -----
Sanitation	111,567,148	List of beneficiaries
Land, Buildings and Structures	48,172,831	Title deeds

**3.5 Funding Arrangements**

Original cost of the Project amounting to US\$ 85.6 million in 2003 had been increased up to US\$ 263.26 million in 2010. Further, arrangements made to meet additional expenses are given below.

	ADB ----- US\$ million	GOSL ----- US\$ million	Community contribution ----- US\$ million	Total ----- US\$ million
Initial agreement (Loan No.1993)	60.3	22.2	3.1	85.6
supplementary loan agreements				
Loan nos. - 2275	13.5	5.6		19.1
- 2276	<u>46.5</u>	<u>24.0</u>		<u>70.5</u>
	120.3	51.8		175.2
Additional Provision in GOSL		57.09		57.09
	----- 120.3	----- 108.89	----- 3.1	----- 232.29
supplementary loan agreements				
Loan no -2757	4.30	0.53		4.83
-2758	13.30	1.64		14.94
parity differences	11.2			11.2
	----- <b>149.1</b>	----- <b>111.06</b>	----- <b>3.1</b>	----- <b>263.26</b>
	=====	=====	=====	=====

Following observations are made in this regard.

- a) Although the total estimated cost of the Project to complete the expected targets in 2003 was US\$ 85.6 million. due to improper cost estimates, the cost estimate had to be revised as US\$ 263.26 million to achieve the same targets. Therefore, the total cost had been increased by 212 per cent.
- b) It was observed that the ratio of funding to the Project by foreign and local components at the beginning of the Project was 1: 0.37. However it was later changed to 1: 0.74 due to supplementary estimates approved by the Government. The Project had not yet been completed and the foreign funds had been substantially utilized. Therefore the

future liabilities and expenses will have to be borne by the Government causing to a huge change to the initial funding ratio.

**4. Financial and Operating Review**

**4.1 Utilization of funds**

Following observations are made.

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

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

	<b>ADB LOAN</b>	<b>GOSL</b>	<b>COMMUNITY BASED ORGANIZATION</b>	<b>TOTAL</b>
	-----	-----	-----	-----
Agreed contribution (US\$ Mn)	60.3	58.5	3.1	121.9
<u>Add:</u>				
Parity Difference	<u>9.9</u>	=	-	<u>9.9</u>
<b>Total</b>	<b>70.2</b>	<b>58.5</b>	<b>3.1</b>	<b>131.8</b>
Project expenditure up to 31 December 2012 (US\$ Mn)	70.2	56.5	6.1	132.8
Utilization of funds as a Percentage	100	96.6	196.8	100.7

- (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 31 December 2012 are shown below.

Amount agreed to be provided		Budgetary provision for the year 2012	Funds utilized during the year	Funds utilized up to 31 December 2012 (Cash Basis)	
US\$ (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)	Rs (Mn)	
ADB	70.17	8,174.3	58.35	56.11	7,656.67
GOSL	58.52	6,597.6	882.23	783.22	5,966.06
<b>Total</b>	<b><u>128.69</u></b>	<b><u>14,771.9</u></b>	<b><u>940.58</u></b>	<b><u>839.33*</u></b>	<b><u>13,622.73*</u></b>

\* The above mentioned figures differ from the figures shown in Paragraph 2.1 of this report, due to the effect of accrued expenses.

## **4.2 Physical Performance**

### **4.2.1 Overall Physical Progress**

The Project was scheduled to be completed by 31 March 2009. However the period had been subsequently extended upto 30 September 2011. Although 16 contracts were scheduled to be implemented for achieving of the deliver safe water to approximately 969,000 people, it had to be limited to nine contracts due to inflation effects and balance 7 contracts had been carried out through 4 supplementary loan agreements. This nine contracts were scheduled to be completed according to the revised work programme. According to the progress report of the Project as at 31 December 2012, all the contracts had been completed within the revised contract programme. Details are given below.

<b>Package No /Project activity</b>	<b>Expected Target as at 31 December 2012</b>	<b>Actual physical progress as at 31 December 2012</b>	<b>Difference</b>
-----	-----	-----	-----
	%	%	%
(i) <b><u>HW&amp;T/UWS/PA3/HAM/ICB</u></b> Construction and Completion of Head Works, Raw Water Transmission Main, Treatment Plant (15,000 m3/day) and Treated Water Pumping Main (Plant and Design Build Basis)	100	100	-
(ii) <b><u>PW/UWS/PA4/HAM/LCB</u></b> Supply and Laying of 500mm DI Transmission Main (47km) from Ambalantota to Mirijjawila	100	100	-
(iii) <b><u>IW/UWS/PD1/BAT/ICB</u></b> Raising of the Bund and other Related Structures of the Unnichchai Tank	100	100	-
(iv) <b><u>PW&amp;ET/UWS/PE1/BAT/NCB</u></b> Supply and Laying of distribution system in zones 1, 2, 5 & 6 (PART A)	100	100	-
(v) <b><u>PW&amp;ET/UWS/PE2/BAT/NCB</u></b> Supply and Laying of distribution system in zones 3, 4, 7 & 8 (PART B)	100	100	-
(vi) <b><u>DR/UWS/PG1/BAT/NCB</u></b> Construction and completion of storm water drainage improvement	100	100	-



(vii)	<b><u>SE/UWS/PH1/BAT/LCB</u></b>			
	Construction and completion of waste water treatment system for Batticaloa Hospital and Prison including laying of sewerage lines and Installation of Package / Compact Treatment Plant	100	100	-
(viii)	<b><u>PW&amp;ET/UWS/PE3/MUT/ICB</u></b>			
	Supply and laying of treated water pumping main distribution pipes (10.5km) and construction of elevated water towers (02 nos)	100	100	-
(ix)	<b><u>HW&amp;T/UWS/PA5/POL/ICB</u></b>			
	Construction and Completion of Head Works, Raw Water Transmission Main (4km), Treatment Plant (13,500m <sup>3</sup> /day) and Treated Water Transmission Main (11km) and Rehabilitation of Existing Treatment Plant. (Plant and Design Build Basis)	100	100	-

#### **4.2.2 Rural Water Supply and Sanitation Programme**

Following observations are made.

##### **a) Sanitation Programme**

A sum of Rs.135 million had been allocated for providing of sanitation facilities to 32,572 families at the inception. But only Rs.126 million had been provided and only 22,511 families had been given facilities as at end of the Project period of 31 December 2012.

The progress of the Sanitation programme as at 31 December 2012 was as follows.

District	<b><u>Construction of Latrines</u></b>			
	Initial Target (No of Latrines)	Revised Target (No of Latrines)	Completion as at 31 December 2012 (No of Latrines)	%
-----	-----	-----	-----	-----
Anuradhapura	12,722	9,605	8,984	93
Polonnaruwa	13,650	9,895	9,415	96
Batticaloa	2,700	2,382	1,680	71
Hambantota	1,500	1,092	1,098	101
Mutur	2,000	1,573	1,334	85
	-----	-----	-----	
<b>Total</b>	<b><u>32,572</u></b>	<b><u>24,547</u></b>	<b><u>22,511</u></b>	92

In comparing with the initial plan, the original targets had been revised significantly from time to time so as to match with the actual performance.

**b) Institutional Development**

The institutional strengthening component was expected to support specific strategies to improve financial management and service deliver, such as awareness education campaign, financial and operational improvement support etc of the National Water Supply and Drainage Board. According to the Budget allocation, a sum of Rs.300 million had been allocated in 2009, and out of that a sum Rs.209 had been spent for the institutional development as at 31 December 2012. Therefore, balance allocated funds of Rs.81Mn had not been utilized for Institutional strengthening programmes.