

**Secondary Towns and Rural Community Based Water Supply and Sanitation Project
(Loan No 2275 -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) 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 Project expenditure for the year ended 31 December 2012 amounted to Rs.324,131,293 and the cumulative expenditure as at 31 December 2012 amounted to Rs.. 1,954,191,089. A summary of the expenditure for the year under review, expenditure for preceding year and the cumulative expenditure as at 31 December 2012 are shown below.

Item	Expenditure for the year		Cumulative
	ended 31 December		Expenditure as at
			31 December 2012
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	2012	2011	
	Rs.	Rs.	Rs.
Civil Works	134,289,016	264,433,364	1,329,246,730
Equipment and Materials	178,777,855	45,529,241	584,890,047
Interest Chargers(Subsidiary)	11,064,422	9,680,088	40,054,312
Total	<u>324,131,293</u>	<u>319,642,693</u>	<u>1,954,191,089</u>

3. Audit Observation

3.1 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- a) Although interest recovered by the funding agency from 2007 to 31 December 2012 amounting to Rs.51,575,515 should be accounted as interest expenses and ADB loan as per Loan agreement entered into between GOSL and ADB, interest paid by the NWSDB from 2007 to 31 December 2012 amounting to Rs.40,054,312 had been accounted as interest expenses and interest payables of the Project as per subsidiary loan agreement entered into between GOSL and NWSDB. Therefore, interest expenses and ADB loan had been understated by Rs.11,521,203 and Rs.51,575,515 respectively as at 31 December 2012.

- b) Payables to two contractors aggregating to Rs.49,393,223 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.

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 within the scheduled time period using allocated resources. 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.

	ADB	GOSL	Total
Agreed contribution (in US\$ million)	13.5	8.0	21.5
Actual expenditure Up to 31 December 2012 (in US\$ million)	10.4	6.6	17.0
Utilization of funds as a Percentage	77	82.5	79.1

- 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	13.5	1,442.66	176.11	169.36	1,179.66
GOSL	8.0	902.30	80.30	71.29	720.81
Total	<u>21.5</u>	<u>2,344.96</u>	<u>256.41</u>	<u>240.65*</u>	<u>1,900.47*</u>

* 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 Progress

The contract for supply and laying of distribution pipes and construction of elevated water towers (PE 4) had been completed as at 31 December 2012. The contract related to the construction of Salinity Barrier at Hambantota water supply scheme had originally been planned to be completed by May 2007. However this contract had to be re- bid and subsequently it was awarded in October 2009. The construction of Salinity Barrier had been delayed due to unforeseen subsoil condition in the foundation and occurrence of number of floods. Therefore the contract period had been extended up to 31 March 2013.

Physical progress of the above mentioned two contracts as at 31 December 2012 is given below.

Package No /Project activity	Expected Target as at 31 December 2012	Actual physical progress as at 31 December 2012	Difference
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	%	%	%
<u>SB/UWS/PB2/HAM/ICB</u>			
Construction and Completion of Salinity Barrier Across Walawa River at Ambalantota.	100	90	10
<u>PW&ET/UWS/PE4/POL/ICB</u>			
Supply and laying of distribution pipes and construction of elevated water towers	100	100	-