

The Secondary Towns and Rural Community Based Water Supply and Sanitation Project (Loan No 2276 -SRI) 2010

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 5 of this report , I am of opinion that,

(a) the Project had maintained proper accounting records for the year ended 31 December 2010 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2010 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 2010 had been truly and fairly disclosed in the books records maintained by the Project and the balance as at 31 December 2010 had been satisfactorily reconciled with the accounting recodes of the Central Bank of Sri Lanka as at that date

(d) the statement 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 statements

2:1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2010 amounted to Rs.1,957,427,257 as compared with the expenditure of Rs.3,348,188,529 for the previous year. A summary of the expenditure during the year under review, the previous year and the cumulative expenditure as at 31 December 2010 is shown below.

Item	Expenditure for the year		Cumulative Expenditure as at 31 December 2010
	ended 31 December 2010	2009	
	Rs.	Rs.	Rs.
Civil Works	1,028,018,879	2,177,518,588	4,617,798,960
Equipment and Materials	885,596,617	1,137,040,294	3,260,784,032
Interest Chargers	<u>43,811,761</u>	<u>33,629,647</u>	<u>89,089,076</u>
Total	<u>1,957,427,257</u>	<u>3,348,188,529</u>	<u>7,967,672,068</u>

2.2 Utilization of Funds

According to the information made available, utilization of funds of the Project as at 31 December 2010 is given below.

	ADB	GOSL	Total
	U.S\$ Mn.	U.S\$ Mn.	U.S\$ Mn.
Agreed contributions	46.5	24.0	70.5
Add. Foreign Exchange difference	2.3	-	2.3

Supplementary Provision	-	17.87	17.87
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	48.8	41.87	90.67
Actual expenditure incurred			
Up to 31 December 2010	43.6	28.8	72.4
Utilization of funds as a	89.34	68.78	79.85
Percentage			

2.3 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 2010 and the balance available as at 31 December 2010 are given below.

	US \$	Rs
Balance as at 1 st January 2010	227,652	26,039,868
Foreign Exchange loss	-	(495,582)
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	227,652	25,544,286
Less: Withdrawals	<u>179,908</u>	<u>20,246,922</u>
Balance as at 31 December 2010	47,744	5,297,364
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3. Audit observations

Following observations are made.

- (a) According to the information made available by the project, five sub projects were expected to be implemented at a cost US\$ 70.3 million at the inception. However, one sub project had later been excluded and the cost of the balance four sub projects had been revised. As a result the total cost of the project had increased by 43.3% mainly due to delay in implementation of the Project. Progress and cost details were as follows.

Sub Project No	Cost US\$ million		Physical progress as a percentage
	Initial - 2006	Revised	
HW&T/UWS P A 1 /BAT/ICB	35.81	51.93	88.6
PW&ET/UWS/PC1/BAT/ICB	16.46	24.73	87.0
PW&ET/UWS/PC2/HAM/ICB	7.94	11.0	98
DR/UWS/PG2/MUT/NCB	1.09	1.16	100
Interest and other chargers	1.94	1.84	
Total	63.24	90.66	

- (ii) Contract related to the construction of Head works, raw water transmission main and treatment plant in Batticaloa had commenced on August 2007 and the date of completion had later been extended up to March 2011. The overall physical progress of this sub project as at 30 March 2011 was only 93%. The main reasons for the delays were due to shortage of steel form work, lack of resource planning poor project management and insufficient technically competent supervisory staff. However according to the Chairman of the NWS&DB, the reasons for the delay was in obtaining the Cabinet approval for project cost revision and Shortage of GOSL funds.