

Kandy City Wastewater Management Project - 01 September to 31 December 2011

1. Financial Statements

1.1 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 1.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the first accounting period from 01 September to 31 December 2011 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2011 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) 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, and
- (d) the financial covenants laid down in the Loan Agreement had been complied with.

1.2 Comments on Financial Statements

1.2.1 Un-reconciled Balances

According to the information furnished by then Ministry of Water Supply and Drainage, funds from foreign sources amounting to Rs. 52.28 million had been received as at 31 December 2011 to implement the Project activities. However, the corresponding amount shown in the financial statements of the Project amounted to Rs. 19.38 million. The difference of Rs. 32.90 million had not been reconciled and adjusted in the accounts accordingly.

1.2.2 Non - Compliance with Laws, Rules and Regulations

The following instances of non- compliances were observed in audit.

- (a) The financial statements of the Project for the period ended 31 December 2011 which required to be submitted to audit on or before 31 March 2012 had been submitted only on 23 September 2014.
- (b) Transactions of the Project had not been subjected to the audit of the Internal Audit Unit of the National Water Supply and Drainage Board, as per the Management Audit Circular No. 05 of 26 July 2010.
- (c) As a practice, the monthly reports on payments of Value Added Taxes had not been furnished to the Commissioner General of Inland Revenue with a copy to the Auditor General as required by the paragraph 5.4.12 of the Government Procurement Guideline, Section 21 of the Value Added Tax Act No. 14 of 2002 and Paragraph 5 of Public Finance Circular No.364 (3) of 30 September 2002. The total Value Added Taxes paid to the contractor during the period under review amounted to Rs. 2.1 million.
- (d) According to Section 08 of the Public Contract Act, No.03 of 1987, the contractors who accepted contracts for Rs. 5 million or more should be registered at the Registrar of Public Contract. Further, within 60 days after awarding of the tender, the tender agreement should be registered with the Registrar of Public Contract. The contractors who dealt with the activities of the Project had not complied with the above mentioned requirements . Further action had not been taken by the Project against them.

2. Financial and Physical Performance

2.1. Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the period under review and the utilization of funds during the first accounting period under review are shown below.

| Source | Amount agreed for financing according to the Loan Agreement | | Allocation made in the Budget Estimate for the first accounting period under review | Funds utilized during the first accounting period | |
|--------|---|----------------------|---|---|--------------------|
| | JPY million | Rs. million | Rs. million | JPY million | Rs. million |
| JICA | 14,087 | 17,922 | 500 | 14.00 | 19.4 |
| GOSL | 3,191 | 4,060 | 130 | 22.51 | 31.2 |
| | <u>17,278</u> | <u>21,982</u> | <u>630</u> | <u>36.51</u> | <u>50.6</u> |

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

2.2 Physical Progress

According to the progress reports prepared by the Project, the overall physical and financial progress at the end of the period under review was 2.55 per cent and 2.80 per cent respectively.

2.3 Matters in Contentious Nature

The following observations are made.

- (a) A sum of Rs. 19.4 million had been spent by the Project to settle the obligations made under the other Project called Kandy City Waste Water Disposal Project which was closed in September 2011.
- (b) As a practice, the computation of the remuneration for the staff of the Project is being done by the National Water Supply and Drainage Board and 20 per cent of the salary cost is charged from the Project as overhead expenditure even though the Project had recruited adequate staff for its administration works. The over head expenditure so paid by the Project to the National Water Supply and Drainage Board for the period under review amounted to Rs. 2.5 million.