**Greater Colombo Water Rehabilitation Project -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) 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.

(d) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and

(e) 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 under review amounted to Rs. 1,363,018,129 and the cumulative expenditure as at 31 December 2012 amounted to Rs.3,499,614,069. A summary of 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 |
|---|---|---|---|
| | 2012 | 2011 | |
| | Rs. | Rs. | Rs. |
| Civil Work | 958,459,116 | 952,669,759 | 2,281,674,397 |

| | | | |
|---|---|---|---|
| Operational Cost | *(108,146,283) | 213,738,637 | 307,768,092 |
| Consultancy Service | 79,588,888 | 51,689,398 | 273,531,279 |
| Value Added Tax (VAT) | 99,660,178 | 93,584,666 | 303,184,071 |
| Loan Interest | 104,529,203 | - | 104,529,203 |
| Property Plant and Equipment | 228,927,027 | - | 228,927,027 |
| | ------------------ | ------------------ | ------------------ |
| | **1,363,018,129** | **1,311,682,460** | **3,499,614,069** |
| | ========== | ========== | ========== |

***** This amount is shown as a negative balance as the value of fixed assets included therein has been transferred to the property, plant and equipment during the year under review.

## 3 Audit Observations

### 3.1 Accounting Deficiency

The Loan and Grant balance shown in the financial statements as at 31 December 2012 had been overstated by Rs.2,337,416 and Rs.3,665,958 respectively as a result of using erroneous exchange rates.

### 3.2 Non- Complance with Laws, Rules and Regulations etc,

According to the Public Finance Circular No.02/2012 of 07 August 2012 of the General Treasury, approval of the Cabinet of Ministers should be obtained if the variation exceed 10 per cent of the contract sum. However, a sum of Rs.11,823,535 had been paid as variation on civil works, contrary to the above requirement.

## 4 Financial and Physical Performance

### 4.1 Utilization of Funds

Certain significant statistics relating to the funds allocated and its utilization as at 31 December 2012 are given below.

| Source | Amount agreed to be provided under Loan Agreement | | Amount allocated in the Budget Estimate for the year 2012 | Funds utilized during the year 2012 | Funds utilized up to 31 December 2012 | | |
|---|---|---|---|---|---|---|---|
| | JPY million | Rs. million | Rs. million | Rs. million | JPY million | Rs. million | % |
| JICA | 3,975 | 3,549 | 841 | 860 | 1,956 | 2,743 | 77 |
| GOSL | 1,384 | 1,236 | 150 | 149 | 518 | 795 | 64 |
| | -------- | -------- | ------- | -------- | ------- | -------- | ----- |
| **TOTAL** | **5,359** | **4,785** | **991** | **1,009*** | **2,474** | **3,538*** | **74** |
| | ==== | ==== | ==== | ==== | ==== | ===== | === |

***** The figures does not agree with the amount shown under paragraph 2:1 of this report due to net working capital and loan interest payable.

**4.2 Contract Administration**

The following observations are made.

(a) To ensure the achievement of the objectives of the Project, using allocated resources, there should be a comprehensive detailed action plan highlighting financial and physical targets with fixing responsibilities in monthly, quarterly, biannually etc. covering the entire Project period. Although detailed action plan had been prepared by the Project covering physical targets, there were no mechanism introduced for identification of deviation and getting required remedial measures. Therefore, the above plan had not been utilized as an effective control device for the Project activities.

(b) It was observed that a proper ground survey had not been carried out during the initial stage of the Project. As a result, additional expenses of Rs. 4,300,246 had been spent by the Project for excavation of rock at the construction site of the Elie House reservoir. Further, the excavated rock material had been sold by the Project to outsiders. However, income generated by the Project thereon had not been shown separately in the financial statements.

**4.3 Under-utilized Assets**

The following observations are made.

(a) The Project had procured 16 vehicles at a cost of Rs.66,324,497 during the year under review under the allocation made for equipment required for the service level improvement to Greater Colombo Distribution Network. However, these vehicles had been used for the purposes of National Water Supply and Drainage Board. It was further observed that a sum of

Rs.850,019 had been spent for hiring of vehicles for purposes of the Project during the year under review.

(b) The Project had purchased 8 computers for Rs.1,236,953 in 2012 and used for the purposes of Ministry of Water Supply and Drainage and the National Water Supply and Drainage Board.

## 5. Physical Performance

The following observations are made.

(a) According to the progress reports prepared by the Project, the overall physical Progress and financial progress of the Project as at the end of the year under review was 73.65 per cent and 72.66 per cent respectively.

(b) The construction of office building at Maligakanda distribution line in Mulleriya Kotikawatte area and activities on low income settlement water supply improvement etc. had been substantially completed as at 31 December 2013. However, reconstruction of Elie House reservoir, construction of Maligakanda new reservoir, Gothatuwa Transmission Main and Gothatuwa new water tower scheduled to be completed on 15 March 2014 had shown a slow progress of 55 per cent as at 31 December 2012.