

## **Kandy City Wastewater Management Project - 2012**

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### **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 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) the 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

#### **1.2 Comments on Financial Statements**

##### **1.2.2 Un-reconciled Balances**

As mentioned in my report for the preceding year, the Project had not been taken action to reconcile the amounts shown in the financial statements with the information provided by the corresponding records maintained by other related institutions. Therefore, the proceeds received from the foreign sources amounting to Rs. 118.76 million as at 31 December 2012 shown in the financial statement had not been agreed

with the proceeds of Rs 101.28 million shown in the records maintained by then Ministry of Water Supply and Drainage.

### **1.2.3 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 year ended 31 December 2012 which required to be submitted to audit on or before 31 March 2013 had been submitted only on 23 September 2014.
- (b) A Register of Fixed Assets had not been maintained by the Project to record the details of the assets procured by the Project at a cost of Rs.1.19 million Further, the action had not been taken to verify such assets physically as required by the Financial Regulation No. 756.
- (c) 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.
- (d) 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. 8.3 million.

## **2. Financial and Physical Performance**

### **2.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2012 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
	JPY million	Rs. million		JPY million	Rs. million	JPY million	Rs. million
JICA	14,087	17,922	1,400	62.10	99.4	76.10	118.8
GOSL	3,191	4,060	350	40.75	65.2	63.26	96.4
	<u>17,278</u>	<u>21,982</u>	<u>1,750</u>	<u>102.85</u>	<u>164.6</u>	<u>139.36</u>	<u>215.2</u>

Although a sum of Rs.1,750 million had been allocated for the year 2012, only Rs.164.6 million equivalent to 9.4 percent of allocated fund utilized during the year under review. Further, it was observed that due to lack of comprehensive plan to ensure the achievement of Project objectives using allocated resources within scheduled time period, highlighting financial and physical targets with fixing responsibilities covering entire Project period, it is doubt whether the Project has a strategy to complete the activities of the Project within specific Project period.

## 2.2 Physical Progress

According to the progress reports prepared by the Project, the overall physical and financial progress at the end of the year under review was 2.69percent and 3.53percent respectively.However, no physical progress had been shown on constructions made under major four packages which was weighted 91.4 percentof activities to be implemented by the Project, due to delays in procurement process.

### **2.3 Matters in Contentious Nature**

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 overhead expenditure so paid by the Project to the National Water Supply and Drainage Board during the year under review amounted to Rs.3.7 million.