

**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 Sri Lanka Accounting Standards.
- (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 Specific 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 Specific 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 ended 31 December 2012 amounted to Rs. 2,108,357,551 and cumulative expenditure as at 31 December 2012 amounted to Rs 12,590,791,893. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 are shown below.

<b>Description</b>	<b>Expenditure for the year ended</b>		<b>Cumulative expenditure as at 31 December 2012</b>
	<b>31 December</b>		
	<b>2012</b>	<b>2011</b>	
	Rs.	Rs.	Rs.
Work - in - progress	2,108,208,551	2,887,743,493	12,473,409,298
Property, Plant and Equipment	149,000	3,312,011	117,382,595
<b>Total</b>	<b>2,108,357,551</b>	<b>2,891,055,504</b>	<b>12,590,791,893</b>

### **3. Comments on Financial Statements**

#### **3.1 Accounting Deficiencies**

The following observations are made.

- (a) A land acquired for constructing a pumping station at a cost of Rs. 20,279,000 and 07 motor vehicles procured at a cost of Rs. 28,234,000 by the Project during the year under review had been shown in the financial statements as work-in-progress, inappropriately.
- (b) The foreign exchange difference amounting to Rs. 126,965,293 had been credited to the Work- in-progress Account instead of Foreign Grant Account.

### **4. Financial and Physical Performance**

#### **4.1 Utilization of Funds**

Certain significant statistics relating to the financing, 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.

Sources	Amount agreed to be provided in the Specific Agreement		Allocation made in the Budget Estimate for the year 2012	Funds Utilized		
	US \$ million	Rs. million		Rs. million	during the year under review	31 December 2012
	US \$ million	Rs. million	Rs. million	Rs. million	US \$ million	Rs. million
SIDA - Loan	91.92	10,495	1,350	1,137	78.36	8,549
- Grant	5.98	683	150	205	5.31	624
GOSL	44.86	5,122	1,082	653	25.69	3,028
Total	<u>142.76</u>	<u>16,300</u>	<u>2,582</u>	<u>1,995</u>	<u>109.36</u>	<u>12,201*</u>

\* This amount differs from the figures shown in paragraph 2.1 of this report as advances and payables at the end of the year under review was not included.

A comprehensive plan to cover the entire Project period and Action Plans thereon highlighting the anticipated financial and physical targets in monthly, quarterly, bi-annually etc. to be prepared to ensure the successful implementation of the Project period. However, no such plans had been prepared and implemented by the Project.

#### **4.2 Physical Performance**

The following observations are made.

- (a) According to the progress reports of the Project, the overall physical and financial progress of the Project at the end of the year under review was remained as 85.04 per cent and 77.9 per cent respectively after lapse of 5 years of the period of the Project .

- (b) The activities under the Component of Ecological Sanitation had not been implemented even after 5 years from the commencement of the activities of the Project due to delays in submission of an evaluation report on suitability of the sanitation methodology by the Consultant appointed for the World Bank.
- (c) As per the Article I of the Specific Agreement, the treated water and sludge should be disposed in such a way that is not harmful to the environment or the people in respect of the Ja-ela / Ekala Waste Water Control Treatment Plant. However, no such system had been implemented even at the date of the audit inspection on 24 September 2014.
- (d) According to the information received, the Project had identified that the Corrugated Poly Ethylene Pipes laid for the sewerage systems in Ja-ela and Ratmalana areas were defective and the contractor had been instructed to replace such pipes by using the Plain Poly Ethylene Pipes. The pipes with the length of 9,300 metres, out of the total length of 10,833 metres had only been laid even at the date of the termination of the contract on 24 September 2014.

#### **4.3 Issues on Financial Controls**

The following observations are made.

- (a) The transactions of the Project had not been subjected to audit of the Internal Audit Section of the National Water Supply and Drainage Board.
- (b) The Board of Survey for the year under review had not been carried out as per Financial Regulation 756 to verify the physical existence of the Plant, Property and Equipment of the Project.

#### **4.4 Matters in Contentious Nature**

The following observations are made

- (a) The computation of the remuneration of the staff of the Project had been done by the National Water Supply and Drainage Board and a sum of Rs.37,581,520 representing 20 per cent of the cost of remuneration had been charged from the Project as overheads during the year under review even though the Project had recruited adequate staff for the administration purposes.
- (b) Allocation amounting to Rs.150 million had been made in the Annual Estimates of the year 2012 under the Grants to meet expenses on consultancy service, However, a sum of Rs. 205 million had been spent during the year under review thereon without obtaining approvals from relevant parties.
- (c) The Project had paid a sum of Rs.5,189,064 to the contractor as overhead cost for perusal of documents related to the payments made to the sub contractor and verify the computation of Nations Building Taxes thereon.
- (d) It was observed that the information relating to the utilization of funds had not been reconciled by the Project with the records of the Line Ministry and

Ministry of Finance. Thus evidenced that the direct payments of US\$ 1.6 million equivalent to Rs.205.42 million made during the year under review, out of the proceeds of Grant of the Project had not been recorded by the Line Ministry and the Ministry of Finance.

- (e) It was observed that the arrangements made to acquire a land belongs to the National Housing Development Authority adjoining to Sumitha Mithudumpura sewerage plant at a cost of Rs. 62.80 million in 2010 had been delayed for over 1 ½ years and as a result, an additional cost of Rs.13.27 million had to be paid due to increase in the land value.

#### **4.5 Extraneous Expenses**

It was observed that a sum of Rs. 2,718,536 spent by the Project out of the contribution received from the Government of Sri Lanka to procure library books and laptop computers for Water Supply and Drainage Board, production of telefilms and to incur costs for an opening ceremony were not directly related to achieve the objectives of the Project.