

Water Sector Development Project II - 2012

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 satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (d) 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.2,603,014,783 and the cumulative expenditure as at 31 December 2012 amounted to Rs.5,101,547,169. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2012 is shown below.

Item of Expenditure	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2012
-----	2012	2011	-----
	Rs.	Rs.	Rs.
Land and Land Development	-	1,135,391	21,633,042
Computer Equipment	195,000	324,948	519,948
Civil Work in Progress	2,486,921,183	1,464,923,879	4,806,560,758
Incremental Operating Cost	115,898,600	66,056,364	272,833,421
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	2,603,014,783	1,532,440,582	5,101,547,169
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3. Audit Observations

3.1 Accounting Deficiencies

The following observations are made.

- (a) Payables aggregating Rs.23,891,846 as at 31 December 2012 had not been brought to accounts.
- (b) Provision for gratuity for the staff of the Project had not been computed and brought to the account.
- (c) Property, Plant and Equipment amounting to Rs. 1.8 million procured through the contractor during the year under review had been accounted under the work-in-progress instead of accounting under Property, Plant and Equipment. Further, such assets had not been physically verified at the end of the year.

3.2 Non – Compliances with Laws, Rules and Regulations

The following observations are made.

- (a) The financial statements of the Project for the year ended 31 December 2012 to be submitted for the audit on or before 28 February 2013 had been submitted only on 01 April 2015.
- (b) Transactions of the Project had not been subjected to audit by the Internal Audit Section of the National Water Supply and Drainage Board.
- (c) A Register of Fixed Assets for the assets procured under Non – Revenue Water Master Plan Component had not been maintained by the Project in terms of Financial Regulation 756.

4. Financial and Operating Review

4.1 Utilization of Funds

Certain significant statistics relating to the financing and 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.

Source	Amount agreed to be provided according to the Project Agreement		Provision made in the Budget Estimate for the year 2012	Funds utilized			
	Japan Yen million	Rs. million		Rs. Million	during the year	up to 31 December 2012	
					Rs. million	Japan Yen million	Rs. million
JICA	8,388	7,989	1,755	1,681	2,702	3,952	
GOSL	2,458	2,341	430	374	750	986	
Total	<u>10,846</u>	<u>10,330</u>	<u>2,185</u>	<u>2,055</u>	<u>3,452</u>	<u>4,938*</u>	

* This amount does not agree with the figures shown in paragraph 2 of this report as the payable at the end of the year under review was not included.

According to the above information, only 32 per cent of allocation had been utilized by the Project even after lapse of 4 ½ years from the commencement of the activities of the Project as at 31 December 2012. Therefore, the utilization of funds allocated during the rest of the period including extended period of 03 years is remained in doubt in audit as there is no comprehensive plan prepared for the rest of the period and implemented by the Project.

4.2 Contract Administration

The activities of the Project had been rescheduled and period of the Project had been extended up to 12 November 2015. According to the progress report prepared by the Project, the overall physical and financial progress of the Project as at end of the year under review was 66 per cent and 44 per cent respectively. The observations of the contract management of the Project are described below.

- (a) Construction works of Kandana Water Treatment Plant at an estimated cost of Rs.1,185 million was delayed for more than 3 years due to poor contract management. The physical progress of the construction works remained 86 per cent even as at 31 December 2014. As a result, the water towers constructed at Kesbewa, Jamburaliya and Kumbuka had remained idle for over 3 years.
- (b) Although the contract to supply and laying of UPVC/ DI pipes, fittings, and DI valves for rehabilitation of distribution system located at Cyril C.Perera Mawatha in Colombo had been completed as at 31 August 2012, the refundable cash deposit amounting to Rs.4.5 million made at Colombo

Municipal Council for the reinstatement of roads had not been withdrawn by the Project even as at 31 December 2014.

- (c) Contracts on laying of pipes and fittings for distribution system for Kesbewa East/West and pipe replacement of 56.5 kilometres in Zone IV of Colombo scheduled to be completed on 31 January 2015 and 31 March 2014 respectively had shown slow progress of 38 per cent and 48 per cent respectively as at 31 December 2012 due to insufficient labour and machinery deployed by the contractor and limited working hours in Colombo Municipal Council area.

4.3 Matters in Contentious Nature

The following observations are made.

- (a) As a practice, the computation of the remuneration for the staff of the Project are being done by the National Water Supply and Drainage Board and 20 per cent of overhead is charged from the Project even though the Project had recruited adequate staff for the administration purposes. Therefore, overhead cost of Rs. 14.9 million had been spent by the Project during the year under review, out of proceeds received from General Treasury.
- (b) A deposit placed on behalf of the office rented for the National Water Supply and Drainage Board at Horana amounting to Rs.1 million which was not related to the activities of the Project had been treated as a refundable deposit of the Project.
- (c) Even though the National Water Supply and Drainage Board is committed to provide all the information related to Non-Revenue Water Master Plan Component, the Board had charged Rs. 4.3 million from the Project to provide digital maps to the contractor employed by the Project.