

Greater Trincomalee Integrated Water Supply Project - 2013

The audit of financial statements of the Greater Trincomalee Integrated Water Supply Project for the year ended 31 December 2013 was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka (GOSL) read in conjunction with Clause 8 of Section II of the Credit Agreement No. 3000 01 H dated 5 October 2005 entered into between the Government of the Democratic Socialist Republic of Sri Lanka and French Development Agency (AFD) .

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Project Agreements of the Greater Trincomalee Integrated Water Supply Project (Component ‘2’ - Water Supply and Rehabilitations), the Executing Agency of the Project is the Ministry of Urban Development and Water Supply, presently Ministry of Urban Development, Water Supply & Drainage. The National Water Supply and Drainage Board (NWSDB) is the Implementing Agency. The main objective of the Project is provision of safe drinking water supply for population of 330,000 in Town and gravets, Kinniya, Kantale, Thampalakamam, Echchalampathai and Part of Kuchchaveli Divisional Secretary Divisions in Trincomalee District. The Agency Francaise De Development of France and Reserve Pays Emergeants French Protocol agreed to finance to National Water Supply and Drainage Board Euro 10.35 million equivalent to Rs.1,500.75 million and Euro 10 million equivalent to Rs.1,650 million respectively. The Government of Sri Lanka had agreed to finance Rs.1,003 million for the purpose of carrying out the Project. However, due to cost overrun, a supplementary finance of Euro 2.5 million equivalent to Rs. 412.5 million had been granted by the Reserve Pays Emergeants -French Protocol thereby bringing the total amount allocated under Reserve Pays Emergeants -French Protocol to Euro 12.5 million equivalent to Rs.2,062.5 million. The activities of the Project commenced in February 2006 and initially scheduled to be completed by end of November 2010. However, the Project period had been extended in three occasions up to 02 February 2015 subsequently.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and test were such as enable as wide and audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial

statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimate made by the management in the preparation of financial statements as well as evaluating their overall presentation of financial statements. The audit examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project.
- (b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of the Democratic Socialist Republic of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identification of the purchases made out of the Loan etc.
- (c) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Credit Agreement.
- (d) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project.
- (e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting Principles.
- (g) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (h) Whether 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 Credit Agreement,
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether financial covenants laid down in the Credit Agreement had been complied with.

3. 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 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the withdrawals from and replenishments to the Imprest Fund Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (d) 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 Credit Agreement,
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Credit Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements presented and information made available, the expenditure of the Project for the year ended 31 December 2013 amounted to Rs. 614,900,136 as compared with the expenditure of Rs.1,814,093,294 for the preceding year and the cumulative expenditure as at 31 December 2013 amounted to Rs. 4,641,083,407. A summary of the expenditure for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is shown below.

Item -----	Expenditure for the year ended 31 December		Cumulative Expenditure as at 31 December 2013
	<u>2013</u> Rs.	<u>2012</u> Rs.	Rs.
Work-in Progress - AFD	160,961,858	494,457,763	1,496,912,703
Work-in Progress - RPE	230,866,756	954,776,633	1,702,911,844
Work-in Progress - GOSL	199,736,270	362,411,925	1,395,230,000

Fixed Assets at cost	23,335,252	2,446,973	46,028,860
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Total	614,900,136	1,814,093,294	4,641,083,407
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4.2 Imprest Fund Account

According to the financial statements and the information made available, the operations of the Imprest Fund Account for the year ended 31 December 2013 and the balance available in that account as at 31 December 2013 are given below.

	Euro	Rs.
Balance as at 01 January 2013	27,256	4,582,456
Add : Replenishment	1,555,772	258,271,477
Foreign Exchange Gain	-	17,489,246
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	1,583,028	280,343,179
Less: Withdrawals	1,053,465	184,782,354
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Balance as at 31 December 2013	<u>529,563</u>	<u>95,560,825</u>

5. Audit Observations

5.1 Accounting Deficiencies

The following observations are made.

- (a) Security deposits placed with the Ceylon Electricity Board for supplying of electricity to two Intakes and a Water Treatment Plant amounting to Rs. 6.9 million had been accounted as work- in- progress of the Project without being treated as receivables in the financial statements.
- (b) The mobilization advance paid to a contractor in 2012 by Agency Francaise Dee Development amounting to EURO 31,517 equivalent to Rs.5.2 million had been accounted twice in 2012 and 2013 erroneously. Therefore, balances shown in the Mobilization Advance Account and the AFD Loan Account shown in the financial statements as at 31 December 2013 had been overstated by similar amount.
- (c) Value Added Tax (VAT) of Rs.1.6 million paid during the year under review on purchasing of motor vehicles had been accounted under work-in-progress of the Project without being capitalized.
- (d) The cash and cash equivalents as at 31 December 2013 amounting to EURO 529,563 equivalent to Rs. 95,560,825 had been shown as EURO 26,801 equivalent to Rs.1,009,417 in the Cash Flow Statement erroneously.

- (e) The discount received from a contractor amounting to Euro 14,129 equivalent to Rs. 2.5 million had been accounted as contingencies payable.

5.2 Non – Compliances with Laws, Rules and Regulations etc.

The following instances of non – compliances were observed.

- (a) The financial statements of the Project for the year ended 31 December 2013 which required to be furnished for the Auditor General on or before 28 February 2014 were submitted only on 20 August 2014.
- (b). Transactions of the Project had not been subjected to the internal audit according to the Circular No.05 of 26 July 2010 of the Management Audit Department of the General Treasury to ensure the financial controls over the activities implemented by the Project.
- (c). A sum of Rs. 38.2 million of property, plant and equipment shown in the financial statements had not been verified physically as per Financial Regulation 756 enable to ensure the physical existence of assets.
- (d) The Project had deducted Construction Industry Guarantee Fund Levy (CIGFL) at one per cent on contract payments as specified in the Section 03 of Finance Act No.05 of 2005 as amended by the Act , No.13 of 2007 and Act , No.18 of 2009. The amount which had not been deducted and remitted to the Commissioner General of Inland Revenue on the total contract payments made as at 31 December 2013 was Rs.24 million

5.3 Matters in Contentious Nature

As a practice, the computation of the remuneration for the staff of the Project is carried out by the National Water Supply and Drainage Board and 20 per cent of overhead is charged thereon even though the adequate staff for general administration purpose is employed by the Project Management Unit. Therefore, the reasons for charging of overhead cost of Rs. 6.9 million from the Project during the year under review, out of the proceeds received from General Treasury could not be justified in audit.

6. Financial and Operating Review

6.1 Utilization of Funds

The following observations are made.

- a) To ensure the achievement of the objectives of the Project using allocated resources within the 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 the entire Project period. Such plan had not been prepared and implemented by the Project.

- b) 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 2013 are shown below.

Sources	Amount agreed to be financed		Budgetary provision for the year 2013	Funds utilized during the year	Funds utilized up to 31 December 2013	
	EURO million	Rs. million	Rs. million	rs. million	EURO million	Rs. million
AFD	10.35	1,500.75	245.00	190.45	10.23	1,642.25
RPE	12.50	2,062.50	258.00	214.53	10.25	1,669.36
GOSL	6.78	1,003.00	300.00	273.99	8.59	1,388.78
Total	29.63	4,566.25	803.00	678.97	29.07	4,700.39*

* The above mentioned figure does not agree with the figures shown in paragraph 4.1 of this report, as accrued expenses, mobilization advances and advance on office rent are not included.

6.2 Physical Performance

Two contracts awarded by the Project had shown slow progress of 56 per cent and 40 per cent respectively at the end of the year under review due to changes of scope of the works and delays in awarding the contract.