

## **North and East Water Supply, Sanitation and Hygiene (WASH) Project - 2013**

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The audit of the financial statements of the North and East Water Supply, Sanitation and Hygiene (WASH) Pilot 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 read in conjunction with Section 2.06 (c) of the Grant Agreement No. TF 010773 dated 29 November 2011 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the World Bank.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Grant Agreement of the North and East Water Supply, Sanitation and Hygiene (WASH) Project, the National Water Supply and Drainage Board (NWSDB) under the Ministry of Water Supply and Drainage is the Implementing Agency of the Project. The objectives of the Project are to increase accessibilities to safe and sustainable pipe borne water supply and sanitation to complement post conflict housing reconstruction interventions in a selected rural communities within two districts of the Northern and Eastern Provinces, including piloting of viable mechanism to strengthen institutional systems to deliver local level water, sanitation and hygiene services, eventually generating lessons and replicable models to contribute to the overall improvement of hygiene practices and to the overall quality of life communities of returnees. The estimated total cost of the Project is US\$ 2.49 million equivalent to Rs. 297.28 million and out of that US \$ 2.01 million equivalent to Rs. 257.28 million or 80.23 per cent was agreed to be financed by the World Bank. The Project commenced its activities on 16 November 2011 and was scheduled to be completed by 30 June 2014.

### **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 review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests 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. I

have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. 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 Sri Lanka and the Donor 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 Grant,
- (c) Whether the withdrawals under Grant had been made in accordance with the specifications laid down in the Grant Agreement,
- (d) Whether the funds, materials and equipments supplied under the Grant 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 Special Dollar Account had been truly and fairly disclosed in the books and records maintained by the Project and the balances as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date, and
- (h) Whether the financial covenants laid down in the Grant 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 Projects 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 Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Grant Agreements and
- d) the financial covenants laid down in the Grant Agreements had been applied with.

#### 4. Financial Statement

##### 4.1 Financial Performance

According to the financial statements and information made available, the Project expenditure for the year ended 31 December 2013 amounted to Rs. 161,834,615 and the cumulative expenditure as at 31 December 2013 amounted to Rs.210,307,217. A summary of the expenditure for the year under review, expenditure for the proceeding year and the cumulative expenditure as at 31 December 2013 is shown below.

Item -----	Expenditure for the year ended 31 December		Cummulative expenditure as at 31 December 2013
	2013 ----- Rs.	2012 ----- Rs.	Rs.
Furniture Equipment and Fittings	9,500	5,260,186	5,269,686
Work-in -Progress	161,825,115	43,212,416	205,037,531
	<b>161,834,615</b>	<b>48,472,602</b>	<b>210,307,217</b>

##### 4.2 Special Dollar Account

According to the financial statements and information made available, the operations of the Special Dollar Account of the Project maintained at the Central Bank of Sri Lanka for the year ended 31 December 2013 are given below.

	US\$ -----	Rs -----
Balance as at 1 January 2013	895,425	113,863,080
Add: Replenishment	471,672	61,532,882
Foreign Exchange Gain	-	2,006,987
	1,367,097	177,402,949
Less : Withdrawals	1,073,727	139,043,878
Balance as at 31 December 2013	<b>293,370</b>	<b>38,359,071</b>

## 5. Audit observations

### 5.1 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.1,369,193 payable as at 31 December 2013 had not been brought to accounts.
- (b) The balance amounting to Rs.38,359,071 remained in the Special Dollar Account as at 31 December 2013 had been treated as funds utilised in the world Bank Fund (Grants) Account in the Financial statements.

### 5.2 Non- Compliance with Laws Rules and Regulations

The following instances of non-compliances were observed.

- (a) According to Section 2.06 of the Grant Agreement, the audited financial statements for each accounting period should be furnished to the World Bank not later than six months after end of each financial year. However, the financial statements for the year ended 31 December 2013 had been submitted for audit only on 21 July 2014.
- (b) According to FR 134(3) and Management Audit Circular No. 05 of 20 July 2010, the activities of the Project had not been audited by the Internal Audit Section of the National Water Supply and Drainage Board.

## 6. Financial and Physical Performance

### 6.1 Utilization of Funds

Certain significant statistics relating to the financing and budgetary provision and utilization of funds as at 31 December 2013 are shown below.

Source	Amount agreed to be provided		Budgetary Provision for the year 2013	Funds Received during the year under review	Total Expenditure incurred up to 31 December 2013
	US\$ million	Rs. million	Rs. million	Rs.million	Rs.million
World Bank	2.01	257.28	175	144.15	180.62
GOSL	0.48	40.00	25	17.68	29.68
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<b>Total</b>	<b><u>2.49</u></b>	<b><u>297.28</u></b>	<b><u>200</u></b>	<b><u>161.83</u></b>	<b><u>210.30</u></b>

## 6.2 Physical Performance

The following observations are made.

- (a) Although detailed action plan had been prepared covering the entire Project period by highlighting financial and physical targets in quarterly manner, neither progress reports based on the above action plan nor other mechanism had been introduced to ensure the performance of the Project in accordance with that action plan.
- (b) The variation order had been approved to remove a rock of 208.15 square metre in the construction of 02 dug wells for Mathakiramum Water Supply Scheme and a sum of Rs 1,912,876 had been paid to the contractor thereon. According to the information received the rock material was dumped in the site and allowed the Water Supply Utility Organizations to use such rock material for their own activities.
- (c) According to the information received, it was expected to improve toilet facilities for 388 households in Trincomalee District under the sanitation improvement programme implemented by the project. However, the toilet facilities for 298 households had been provided as at 31 December 2013.
- (d) According to the progress report of the Project, it was expected to provide water connection with water meters to 1,121 families of 4 villages in Trincomalee District. The progress of providing pipe borne water connections as at 31 December 2013 was as follows.

Villages selected	No of families targeted		No. of Water connection given as at 31 December 2013
	Original	Received	
Namalwatta	232	104	50
Nawatchli	330	280	280
Mahadivulwewa	350	350	350
Killiweddi	209	150	150
<b>Total</b>	<b>1,121</b>	<b>884</b>	<b>830</b>