

Anuradhapura North Water Supply Project Phase I - 2014

The audit of financial statements of the Anuradhapura North Water Supply Project for the year ended 31 December 2014 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 14 of Project memorandum of the Loan Agreement No.SL-P 110 dated 14 March 2013 entered into between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement of the Project, then Ministry of Water Supply and Drainage, presently Ministry of City Planning and Water Supply is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to provide safe drinking water and increase water supply coverage by constructing a water supply system in Anuradhapura North Area, thereby contributing to improving hygienic status and health condition in the area. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 6,817 million equivalent to Rs.11,515 million and out of that Japan Yen 5,166 million or 75.78 per cent equivalent to Rs.8,726 million was agreed to be financed by the Japan International Cooperation Agency. Balance amount of Japan Yen 1,651 million or 24.22 per cent equivalent to Rs.2,789 million is expected to be contributed by the Government of Sri Lanka. The Project commenced its activities in February 2013 and scheduled to be completed by February 2018.

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 Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.4 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests 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 the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) 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 Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan, etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement.
- (e) Whether the funds, materials and equipments supplied under the Loan had been utilized for the purposes of the Project.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Loan Agreement had been complied with.

1.5 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 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 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Accounting Standards.
- (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.

2.2 Comments on Financial Statements

2.2.1 Non - Compliance with Laws, Rules and Regulations

Board of Surveys for the year ended 31 December 2014 had not been carried out as per Financial Regulation No.756 to verify the physical existence of the Property, Plant and Equipment owned to the Project.

2.2.2 Lack of Documentary Evidence for Audit

A sum of Rs.14.8 million transferred from National Water Supply and Drainage Board had been accounted as staff remuneration of the Project. Due to lack of a detailed schedule including the information such as basic salary, allowances and deductions, etc., it was not possible to justify the accuracy of the remuneration paid to the Project Staff.

3. Financial and Physical Performance

3.1 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 2014 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		during the year 2014		up to 31 December 2014	
	JPY million	Rs. million	Rs. million	JPY million	Rs. million	JPY million	Rs. million
JICA	5,166	8,726	290.00	202.18	246.00	202.18	246.00
GOSL	1,651	2,789	73.10	49.56	60.22	66.72	81.07
Total	6,817	11,515	363.10	251.74	306.22	268.90	327.07

According to the above information only 4 per cent of proceeds of the loan allocated had been utilized as at 31 December 2014. Thus indicated that the possibility of use of 96 per cent of the proceeds of loan allocated during the next period of 03 years was remained questionable.

3.2 Physical Progress

The following observations are made.

- (a) Although there must be a comprehensive detail action plan by highlighting physical and financial progress in monthly, quarterly biannually etc. with fixing responsibility covering entire Project period to ensure the achievement of Project objectives within specific period, such a plan had not been prepared and implemented. So Project performance cannot be ascertained in periodical manner and due to prevailing poor performance, achievement of objectives within specific Project period is uncertain.
- (b) According to the information made available, the activities of the Project had been commenced during the year with delays. Therefore, the primary works such as preparation of designs and tender documents for intake facilities, water treatment plants, ground sumps and towers etc. had been carried out during the year under review and 53 per cent of such works had been completed as at 31 December 2014.
- (c) According to the Article 2.2 of the Project Status Report, a Consultant for the Project should have been selected before September 2013 whereas the contract for the consultancy services had been awarded only on 13 June 2014 with 09 months delay.

3.3 Matters in Contentious Nature

The following observations are made.

- a) As a practice, the computation of the remuneration for the staff of the Project is being done by the National Water Supply and Drainage Board and 20 per cent of the salary cost so computed is charged from the Project as overhead expenditure even though the Project maintained adequate staff for its administration works. The overhead expenditure so paid by the Project to the National Water Supply and Drainage Board for the year 2014 was Rs.517,193.
- b) The Project had spent a sum of Rs. 2 million for third International Conference on Community and Water Services held in Colombo from 22 to 24 August 2014 and eventhough such expenditure was not relevant to the activities of the Project. The expenditure incurred had been shown in the financial statements by setting off against the contribution received from Government of Sri Lanka.